

**INVESTIGATING THE RELATIONSHIP BETWEEN SERVICE QUALITY AND
CUSTOMER LOYALTY IN MELLI BANK OF GOLESTAN BRANCH**

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ABSTRACT

The present study set to investigate the relationship between service quality and customer loyalty in melli Bank of Golestan branch. The population of the study consisted of all customers of melli Bank of Golestan branch, Golestan branch. Using Kersity-Morgan table and simple random sampling, a number of 384 customers were selected as the participants of the study. The method of research is descriptive-correlation with a survey design. SERVQUAL scale and a researcher-made questionnaire were used to examine service quality and customer loyalty, respectively. Pearson correlation formula was run to analyze the data. The results showed a significant relationship between different aspects of service quality and customer loyalty in melli Bank of Golestan branch.

Key words: Quality, Service Quality, customer loyalty, melli Bank.

1. Introduction

In the competitive world of business, high service quality plays a critical role in organizational success. However, it should be noted that delivering good service quality is not a competitive strategy to be used by organizations as a distinguishing factor, rather it is regarded as a critical factor in the survival and profitability of organizations. Business success in the current world of economy depends on the ability to create distinct product values through developing innovative product designs and introducing these innovations to the customers effectively. Despite the quality of products which is ascertained by specified standards, the quality of services are evaluated in terms of their functionality (Crosby,2004). The degree of service quality indicates how much the service has met or been beyond customers' expectations. In other words, service quality refers to the level of customer satisfaction with the fulfillment of needs, wants and expectations. This is essential to help distinguish among products and create a sense of trust and loyalty in customers. Service companies are mainly concerned with engendering loyalty in customers through improving the quality of services. Successful companies direct their efforts toward improving the quality of services based on their insights into customer needs and deficiencies in their current services. When things do not go well, they will search for relevant causes in order to prevent reoccurrence of failures in future. They may focus on innovative methods to increase the quality of

services and customer loyalty simultaneously. Service quality is a fairly newly-developed scientific field with almost two decades of research background (Guo et al,2008).

The term service quality may mean different things to different people. Therefore, we need to shape a clear perception of the concept of quality in the first place. In addition, adopting a definition of quality is not only conceptually important but it also helps direct employees' efforts toward offering high quality services. Quality refers to providing the customer with service or product, which requires good design quality, adaptation, availability and suitability of service location. Quality may mean nothing more than providing customers with what they actually wish. In other words, a high quality service must correspond to the customer needs. As a result, quality may be defined as the correspondence between services offered and customer needs(Brady & Joseph ,2001). International Organization for Standardization (ISO) defines quality as all the features of a service or product which together fulfill customer needs. Singapore National

Productivity Board contends that it is the customer but not producer or service provider who defines the quality. More lucidly, quality refers to a set of service or product features which fulfill customer needs. Doming and Baum define quality as a broad concept to which all parts of an organization are committed and which purports to improve the efficiency of the whole organization so that it will remove deterrent factors and eventually result in complete adaptation of services to the requirements specified by the customer in minimum costs. Parasuraman et al. (1991) contend that perceived quality refers to customer judgments of the superiority or total advantage of a product. Perceived quality is a type of attitude associated with, but not identical to, perfect satisfaction and can be deduced by comparing expectations and perceived performance (Arasli et al,2004)

2.Literature Review

Dimensions of service quality

Parasuraman and colleagues (1998) refer to service quality as the gap between customers' expectations and perceived performance of a service. In this regard, they developed SERVQUAL model as measure to examine service quality (Ying-Feng Kuo et al., 2009). SERVQUAL service quality includes 5 dimensions and 22 components.

Tangibles:

- Modern equipment
- Considerable physical facilities
- Well-dressed employees
- Orderly documents (e.g. handouts, filing, invoices, etc)

Reliability:

- Providing the promised service in timely manner
- Sincerity in solving customer problems
- Improvement in services as soon as possible
- Providing the service as promised
- Delivering accurate reports

Responsiveness:

- Employees let the customers know what services they will actually provide
- Employees provide customers with immediate services (as soon as possible)
- Employees are always willing to help customers
- Employees are always available to answer customer questions

Assurance:

- Employees' behavior will gradually engender customer trust
- Customers feel confident in their interaction with the organization
- Employees are always polite to customers
- Employees have enough knowledge to answer customer questions

Empathy:

- Individual concern for customers
- Adequate business hours for all customers
- Employees treat customers with special attention
- Employees wish the best of benefits for customers
- Employees perceive customers' special needs(Jose & Laura ,2010)

Customer loyalty

Traditionally, loyalty refers to adherence to and enthusiasm for a country, ideology or individual. But it has lately been applied to business culture to characterize customers' enthusiasm for continuous work with a company, exclusive purchase of its products and services and voluntarily suggesting these products and services to friends and colleagues. Customer loyalty would sustain as long as customers feel they are receiving better services than otherwise will be offered by other providers. Therefore, customers tend to purchase products or services which they think will offer them the highest value. The highest value refers to the difference between the total value demanded by the customer and the total cost they will pay for the product or service(Granoos, 2009), Oliver offers a rather comprehensive definition of customer loyalty as the commitment to purchase or select the same product or service

continuously in future purchases though situational effects and marketing efforts may potentially change customer behavior. In the realm of services, loyalty is broadly defined as the observed behaviors. However, behavioral scales (e.g. repeat purchase) have been criticized due to lack of a conceptual basis and offering a narrow scope (focus on result) of a dynamic concept. Thus, behavioral view towards loyalty cannot offer a comprehensive view of the main reasons of loyalty. In return, customers' view in terms of preferences or tendencies plays a crucial role in their loyalty. Therefore, repeat purchase may not be even based on preferences, rather it may be induced by constraints which prevent customer loss. In this regard, customer loyalty is considered as an attitudinal structure. In addition to behavioral and attitudinal views towards customer loyalty, cognitive view has also been introduced. The operational definition of cognitive view centers on the very first product or service coming into the customer's mind once they decide to purchase things or on the very first product or service they choose from among other products or services.(Hollis,2007)

The stages of building customer loyalty

Oliver has delineated four stages of building customer loyalty as follows:

1. Cognitive loyalty: At this stage, the available information determines the advantage of an offering over other alternatives. This stage of loyalty centers on customer beliefs. Customers build their knowledge based on previous and/or recent experience.
2. Affective loyalty: Customers' attitudes toward the organization are affected by satisfaction with previous experiences. At this stage, customers' happiness reflects their satisfaction. Commitment refers to this stage of affective loyalty. This stage of loyalty is stronger than the previous one; however, as with the previous stage, there is the vulnerability of customers' switching to new competitive offerings because evidence has shown that a high percentage of customers who leave the organization claim to be satisfied with its offerings.
3. Conative loyalty: This stage refers to an impulse to intend a behavior so that positive attitudes may effectuate an intent. The impulse implies commitment to repeat purchase. This commitment refers to the customers' intent to repeat purchase and resembles the

impulse. Although customers' intent to repeat purchase may be predictable, it may not be put into effect.

4. Action loyalty: This refers to the study of mechanisms whereby intentions are put into effect. In the sequences of action control, the intentions developed during previous stages will be translated into readiness to do action. This pattern is accompanied by additional desire to overcome the obstacles deterring the action. Consequently, action is the necessary result of the three previous stages (Vesel & Zabkar, 2009).

3. MATERIALS AND METHODS

The method of research is descriptive correlation with a survey design. The population of the study consisted of all customers of melli Bank of Golestan. Using Kerjesi-Morgan table and through simple random sampling, a number of 384 customers were selected as the participants of the study. SERVQUAL scale and a researcher-made questionnaire were used to examine service quality and customer loyalty, respectively. The validity of either scale was acknowledged by experts. The reliability of either questionnaire was estimated using Cronbach alpha formula. In this regard, the reliability indices for the subscales of SERVQUAL questionnaire included: tangibles (0.87), reliability (0.92), responsiveness (0.81), assurance (0.78) and empathy (0.83). The reliability of researcher-made customer loyalty questionnaire was calculated to be $\alpha=0.91$. Using SPSS19 software, Pearson correlation formula was run to analyze the data.

6. Findings

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H0: There is no significant correlation between the tangibles dimension and customer loyalty
H1: There is a significant correlation between the tangibles dimension and customer loyalty.

Table 1: Pearson's Correlation Coefficient

Customer loyalty	Tangibles		
0.742	1	Pearson correlation	Tangibles
0.000		Sig (two-tailed)	
384	384	N	

1	0.742	Pearson correlation	Customer loyalty
	0.000	Sig (two-tailed)	
384	384	N	

As shown in the table, the correlation coefficient for hypothesis 1 was calculated to be 0.742. Since the level of significance in this test equals Sig=0.000 which is smaller than $\alpha=0.05$, there is a significant correlation between the two variables. Accordingly, H_0 is rejected but H_1 is supported. With regard to the positive value of this coefficient (+), there is direct relationship between the two variables.

- H0:** There is no significant correlation between the reliability dimension and customer loyalty.
- H1:** There is a significant correlation between the reliability dimension and customer loyalty.

Table 2: Pearson’s Correlation Coefficient

Customer loyalty	Reliability		
0.671	1	Pearson correlation	Reliability
0.000		Sig (two-tailed)	
384	384	N	
1	0.671	Pearson correlation	Customer loyalty
	0.000	Sig (two-tailed)	
384	384	N	

As shown in the table, the correlation coefficient for hypothesis 2 was calculated to be 0.671. Since the level of significance in this test equals Sig=0.000 which is smaller than $\alpha=0.05$, there is a significant correlation between the two variables. Accordingly, H_0 is rejected but H_1 is supported. With regard to the positive value of this coefficient (+), there is direct relationship between the two variables.

- H0:** There is no significant correlation between the responsiveness dimension and customer loyalty.
- H1:** There is a significant correlation between the responsiveness dimension and customer loyalty.

Table 3: Pearson’s Correlation Coefficient

Customer loyalty	Responsiveness		
0.691	1	Pearson correlation	Responsiveness
0.000		Sig (two-tailed)	
384	384	N	
1	0.691	Pearson correlation	Customer loyalty
	0.000	Sig (two-tailed)	
384	384	N	

As shown in the table, the correlation coefficient for hypothesis 3 was calculated to be 0.691. Since the level of significance in this test equals Sig=0.000 which is smaller than $\alpha=0.05$, there is a significant correlation between the two variables. Accordingly, H_0 is rejected but H_1 is supported. With regard to the positive value of this coefficient (+), there is direct relationship between the two variables.

- H1:** There is no significant correlation between the assurance dimension and customer loyalty
- H2:** There is a significant correlation between the assurance dimension and customer loyalty.

Table 4: Pearson’s Correlation Coefficient

Customer loyalty	Assurance		
0.572	1	Pearson correlation	Assurance
0.000		Sig (two-tailed)	
384	384	N	
1	0.572	Pearson correlation	Customer loyalty
	0.000	Sig (two-tailed)	
384	384	N	

As shown in the table, the correlation coefficient for hypothesis 4 was calculated to be 0.572. Since the level of significance in this test equals Sig=0.000 which is smaller than $\alpha=0.05$, there is a significant correlation between the two variables. Accordingly, H_0 is rejected but H_1 is supported. With regard to the positive value of this coefficient (+), there is direct relationship between the two variables.

- H1:** There is no significant correlation between the empathy dimension and customer loyalty.
- H2:** There is a significant correlation between the empathy dimension and customer loyalty.

Table 5: Pearson's Correlation Coefficient

Customer loyalty	Empathy		
0.631	1	Pearson correlation	Empathy
0.000		Sig (two-tailed)	
384	384	N	
1	0.631	Pearson correlation	Customer loyalty
	0.000	Sig (two-tailed)	
384	384	N	

As shown in the table, the correlation coefficient for hypothesis 5 was calculated to be 0.631. Since the level of significance in this test equals Sig=0.000 which is smaller than $\alpha=0.05$, there is a significant correlation between the two variables. Accordingly, H_0 is rejected but H_1 is supported. With regard to the positive value of this coefficient (+), there is direct relationship between the two variables.

RESULTS AND DISCUSSION

Considering the fact that the present findings showed a significant correlation between service quality and customer loyalty and that the present study investigated different aspects of service quality in melli Bank of Golestan branch including reliability of services, service specificity, service professionalism, speed of service, service facilities, employees' physical appearance and behavior and their interest in offering service to the customers, it is recommended that melli

Bank of Golestan branch conduct periodical surveys to examine its customers' loyalty since customer needs are variable over the course of time. The employees need to dress up uniformly so that customers may judge their physical appearance as appropriate. A new research department may be established in the bank in order to study new banking services which may increase the diversity of melli Bank of Golestan branch services and specialty. Finally, it is recommended that employees be trained to shape similar behavior toward all customers. Banks may provide free counseling services for their customers about the plans proposed by the customers and use this service as an advantage in including or excluding the customers. Such services would be of bilateral value. On the one hand, counseling would help the customers make better decisions and thus take less risks. On the other hand, providing such services would increase loyalty in customers and reduce banking risks.

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