

**THE IMPACT OF SERVICE QUALITY AND  
PERCEIVED VALUE ON CUSTOMER LOYALTY  
TOWARDS PRIVATE COMMERCIAL BANKS IN  
BANGLADESH: CUSTOMER SATISFACTION AS THE  
MEDIATING ROLE**

**BY**

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## ABSTRACT

Bangladesh's economy being a small one is home to a huge number of private commercial banks offering homogenous products giving rise to fierce competition within the industry. Gaining substantial customer loyalty can help bank companies survive the competition in the industry. This study tried to examine the impact of service quality and perceived value on customer loyalty as the products of the mediating role of customer satisfaction. A structured questionnaire embodying the five-point Likert scale was developed and disseminated among 400 customer respondents chosen proportionately according to the number of branches operating in four administrative divisions in Bangladesh under eight bank companies belonging to different four generations. 367 responses were found to be usable. The structural equation modelling (SEM) was used by resorting to Statistical Package for Social Science (SPSS) and Analysis of Moment Structures (AMOS). This study reveals that service quality, perceived value, and customer satisfaction positively influence customer loyalty and that the positive impacts are significant. Additionally, this study suggested that private commercial banks in Bangladesh ought to continually gratify customers by ensuring the quality of service and enhancing perceived value, thereby gaining customer loyalty. Since service quality is indispensable for attaining customer satisfaction and thereby winning their loyalty, and in line with this the study suggests that the customers be dealt with core service, tangibles, service delivery, reliabilities, and competencies to raise their level of contentment and persuade them to revisit private commercial banks. Again, the dimensions of perceived value which include functional, emotional, and social be addressed towards reproducing experience in customers' favour and convincing customers to stay with the banks. As the implication, this study highlighted to the scholars and professionals in the banking industry may resort to the findings of the study for having a better understanding of how the different relevant factors give rise to customer satisfaction, which in turn creates customer loyalty, and how they influence each other as well. The outcomes of the study will assist the practitioners in which innovative and distinctive marketing strategies are to be devised to enhance customer loyalty.

## خلاصة البحث

يعد اقتصاد بنغلاديش صغيراً ، وهو موطن لعدد كبير من البنوك التجارية الخاصة التي تقدم منتجات متجانسة مما أدى إلى المنافسة الشرسة داخل الصناعة. يمكن أن يساعد اكتساب ولاء كبير للعملاء الشركات المصرفية على النجاة من المنافسة في الصناعة. حاولت هذه الدراسة فحص تأثير جودة الخدمة والقيمة المتصورة على ولاء العملاء كمنتجات للدور الوسيط لرضا العملاء. تم تطوير استبيان منظم يجسد مقياس ليكرت (Likert) المكون من خمس نقاط ونشره بين 400 عميل تم اختيارهم بشكل متناسب وفقاً لعدد الفروع العاملة في أربعة أقسام إدارية في بنغلاديش في إطار ثماني شركات مصرفية تنتمي إلى أربعة أجيال مختلفة. تم العثور على 367 الردود لتكون قابلة للاستخدام. تم استخدام نمذجة المعادلة الهيكلية (SEM) من خلال اللجوء إلى الحزمة الإحصائية للعلوم الاجتماعية (SPSS) وتحليل الهياكل اللحظية (AMOS). تكشف هذه الدراسة أن جودة الخدمة والقيمة المتصورة ورضا العملاء تؤثر بشكل إيجابي على ولاء العملاء وأن الآثار الإيجابية كبيرة. بالإضافة إلى ذلك ، اقترحت هذه الدراسة أن البنوك التجارية الخاصة في بنغلاديش يجب أن ترضي العملاء باستمرار من خلال ضمان جودة الخدمة وتعزيز القيمة المتصورة ، وبالتالي اكتساب ولاء العملاء. نظراً لأن جودة الخدمة لا غنى عنها لتحقيق رضا العملاء وبالتالي كسب ولائهم ، وتماشياً مع هذا ، تقترح الدراسة أن يتم التعامل مع العملاء مع الخدمة الأساسية والأشياء الملموسة وتقديم الخدمات والموثوقية والكفاءات لرفع مستوى رضاهم وإقناعهم لإعادة زيارة البنوك التجارية الخاصة. مرة أخرى ، يتم التعامل مع أبعاد القيمة المتصورة التي تشمل الوظيفية والعاطفية والاجتماعية نحو إعادة إنتاج التجربة لصالح العملاء وإقناع العملاء بالبقاء مع البنوك. كضمانة ، سلطت هذه الدراسة الضوء على العلماء والمهنيين في الصناعة المصرفية قد يلجأون إلى نتائج الدراسة للحصول على فهم أفضل لكيفية قيام العوامل المختلفة ذات الصلة بإرضاء العملاء ، والتي بدورها تخلق ولاء العملاء ، وكيف تؤثر على بعضها البعض أيضاً. ستساعد نتائج الدراسة الممارسين على وضع استراتيجيات تسويقية مبتكرة ومميزة لتعزيز ولاء العملاء.

## **APPROVAL PAGE**

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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*This thesis is dedicated to my parents, late Md. Anisur Rahman and Jahanara khanom*

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## LIST OF ABBREVIATIONS

AMOS	Analysis of Moment Structure
ATM	Automated Teller Machine
AVE	Average Variance Extracted (AVE)
BBL	BRAC Bank Limited
CO	Competence
CEIC	Census and Economic Information Centre
CFA	Confirmatory Factor Analysis (CFA)
Chisq/df	Chi-Square / Degree of Freedom
CL	Customer loyalty
COS	Core Service
CS	Customer Satisfaction
DFI	Government Maintained Development Financial institution
DSE	Dhaka Stock Exchange
DV	Dependent Variable
EBL	Eastern Bank Limited
EDT	Expectation Disconfirmation Theory
EFA	Exploratory Factor Analysis (EFA)
EV	Emotional Value
FCB	Foreign Commercial Bank
FV	Functional Value
GDP	Gross Domestic Products
GFI	Goodness of Fit Index
GOF	Goodness of Fit
GOVAL	Perceived Value
HSC	Higher Secondary Certificate
IBBL	Islami Bank Bangladesh Limited
IV	Independent Variable
KMO	Kaiser-Meyer-Olkin
LC	Letter of Credit
MBL	Mercantile Bank Limited
MFI	Micro Finance Institution
MI	Modification Indices
MOBL	Modhumoti Bank Limited
MV	Mediating Variable
NBL	National Bank Limited
NCB	Nationalised Commercial Bank
NRBCBL	NRB Commercial Bank Limited
PCB	Private Commercial Bank
PV	Perceived Value
RE	Reliability
RMSEA	Reliability
SBL	Southeast Bank Limited
SD	Service Delivery
SEM	Structural Equation Modelling
SERVQUAL	Service Quality
SET	Social Exchange Theory



SME	Small and Medium Enterprises
SOR	Stimulus-Organism-Response
SPSS	Statistical Package for Social Science
SSC	Secondary School Certificate
SQ	Service Quality
SV	Social Value
TA	Tangibles



# CHAPTER ONE

## INTRODUCTION

### 1.1 OVERVIEW

The loyalty of customer to the service companies has been seen both anecdotally and empirically as a source, among others, of sustainable competitive advantage throughout the world (Garepasha et al., 2021; Minta, 2018; Hasiri & Afghanpour, 2016; Ofori et al., 2017). Competition for drawing attention of the customers has given rise to an intense rivalry among the service providing companies. So, building consumer loyalty is considered to be a crucial phenomenon for such companies' growth and survival (Islam et al., 2021; Özkan et al., 2019; Famiyeh et al., 2018). Consequently, customer loyalty is gaining popularity to academics and practitioners as it plays a key role in marketing any product or service (Ofori et al., 2018; Tabrani et al., 2018).

In this context, the banking sector, which is the largest contributing portion of the financial service industry, has embraced customer loyalty as a robust conclusive weapon for the success of their business (Haron et al., 2020; Anwar et al., 2019; Islam & Ali, 2011). This financial service providing institutions can propel an economy through playing a prudent and dynamic role (Kant et al., 2017), similarly this is utterly true for Bangladesh (Ahmed et al., 2019). There always prevails a fierce competition among the bank companies irrespective of differences in economies, when many bank companies offer products resembling to each other's and thereby providing the customers with the opportunity to switch between the companies with increased expectation for services from them (Osman et al., 2015; Köksal & Dema, 2014). Hence, the banks are desperately trying to capture their customers' attention by offering excellent quality of service and creating superior perceived value in order to differentiate one from another (Anwar et al., 2019; Ho & Lin, 2010).

The survival of banks depends on customer contact, as these types of financial service providers are intimately customer oriented (Shayestehfar & Yazdani, 2019; Rahman, 2016; Karim & Chowdhury, 2014). Many practitioners have articulated that the

vital function of a bank is to consider continually evolving needs of the customers and then feed them into the implementation process of sustaining increased service quality in a situation of stiffer market competition (Garepasha et al., 2021; Jain & Jain, 2015). Indeed, the quality of service is fundamentally considered as a strategic weapon in order to meet customers' banking requirements for the bank (Shayestehfar & Yazdani, 2019; Khorshidi et al., 2014). Besides, the perceived value of customer is also regarded as an essential element to assess their buying behaviour which creates a meaningful relationship between an organization and its clients (Sahoo & Telang, 2019; Ivanauskienė et al., 2012). It has been verified that the organization develops a continual flow of products and services to its customers through the creation and recognition of the value that provides exclusive benefits to their buyers and at the same time, it facilitates the company to thrive and to drive to a higher annual return (Chahal & Kumari, 2012).

For any economy, it is important to know how its financial sector, particularly, banking sector, is performing their operations. A bank should have an understanding of how the influence of service quality and the perceived value on customer loyalty through being mediated by the mental state of customer satisfaction works. The performance of the banks and their survival, on the one hand, depend on how successfully the banks are viewing the loyalty of the customers to them. On the other hand, customer loyalty is viewed as the function of how the customers are being served and customers are perceiving the value of the services provided by the banks.

Through the lens of literary works and pragmatic worldviews, it is judicious to sum up that knowing how a country's financial sector performs, is a crying need for the private commercial banks, because it is also plausible to assess the influence of the quality of service and the perception of value on customer loyalty mediating by the state of customer satisfaction (Arif et al., 2012). In setting the seal, it is ambitiously inquired that studying the significance of quality of service and the customers' perception of value towards customer loyalty seems to be justified for the existence of service providing companies, namely banks, hotel and tourism, insurance, media, telecom and other financial services (Al-Azzam, 2015). In line with the afore-mentioned narratives, this study is attempted to adhere to the practices of the quality of services and perceived value in the private commercial banks in Bangladesh.

## **1.2 BACKGROUND OF THE STUDY**

The global economy has been tremendously transformed because of the strain of the latest marketing atmospheres linked to disruptive pressures of economic reforms, policies of government, globalization, the flow of information and the advancement of technology (Maduka et al., 2017; Van et al., 2015). The enhancement of extreme competition is one of the major factors that has contributed to such progression which restructured the entire exposure of the business world (Gomaa, 2014; Essousi & Merunka, 2007). Financial institution, particularly bank, is one of the service providing industries that have extensive influence on every economy in the world (Islam et al., 2021; Zameer et al., 2015). Prior researchers have also announced through their research that the banking sector is a crucial institutional and functional medium for the transformation of the economy (Kant et al., 2017). Therefore, the banks play a vital associating role in a country's financial and economic development, which greatly influences the growth of its various sectors of the economy (Gazi et al., 2021).

In today's rapidly evolving and competitive market, the banks play a major role in the rotation of money done through the banking system throughout the country and at large the globe (Babu, 2018; Hafeez & Muhammad, 2012). It is the most effective way of accomplishing various tasks associated with deposit mobilisation, credit assessment and monitoring, access to a payment network as well as a clearinghouse for the transaction (Masukujjaman & Akter, 2010). A bank, particularly a commercial bank, is a financial intermediary which collects surplus fund as a depositor from individuals and companies, as well as this accumulating fund is also granted as a loan to the profitable business investors as a borrower (Afroz, 2019). In relating to this view, commercial banks provide their customers with a range of products and services, namely, a variety of deposit schemes, loan management, small and medium-size banking and card service (Uddin & Akhter, 2012). Thus, commercial banks serve as one of the key performers to retain the smooth flow of economic growth in a country (Gazi et al., 2021; Khan & Fasih, 2014).

Prior researchers have stated that the bank is one kind of institution that falls in financial service industry which is mostly customer-centred (Aktar, 2021; Islam & Niaz, 2014). The survival of bank in the market is based on customers through introducing its goods and services according to their customers' desires (Karim & Chowdhury, 2014). It

is well established that the success of service providing organisations, such as banks, rely on the long-run relationship with customers that is determined through their satisfaction and loyalty (Mosahab et al., 2010). At present, ensuring the quality of service and the auspicious perceived value are regarded to be the crucial for enhancing customer satisfaction and loyalty in a stiff competitive market (Ariff et al., 2012). Indeed, these factors play a supportive role to improve the performance of banks and determine their success (Khan & Fasih, 2014).

The aspect of customer loyalty has emerged as an important issue in the marketing arena because the demands of customers are nowadays highly customised (Scriosteanu & Popescu, 2010). At the moment, more than ever, customer loyalty is considered as a strategic business priority for any commercial institution, as companies are constantly struggling to establish and maintain long-term relationships with their clientele (Myftaraj & Nexhipi, 2014). Under this situation, a secure connection with valued customers has come to be considered essential to ensure long-term success (Kirmaci, 2012). The fulfilment of customers' expectations is treated as one of the key drivers of business performance (Camilleri, 2018). Therefore, recognising the desires of customers as well as satisfying the customers' expectations has become the foremost goal of business organisations.

Scholars and practitioners in the field of marketing aver that ceaseless customer-focused behaviour of business organisations has become utterly necessary in order to succeed and attract the heart of customers in the ever-competitive marketplace (Jeong, 2014). Undeniably, the deployment of customer-focused behaviour has emerged as a focal point of marketing strategy and a fundamental framework for the growth of customer loyalty (Aziz, 2015). In fact, the comprehension and retention of the customers' expectations are deeply rooted in the product or service design with a view to upholding the loyalty of customer (Ofori et al., 2018). Hence, the financial organisation tends to emphasize developing their customer relations.

It is more important for a company to maintain customer loyalty than to rely on the single-off transactional demand for the product or service (Omoregie et al., 2019). In the same way, prior researchers have found that it is five times more expensive to obtain a new client than to retain clients and 50-100 times more expensive to restore the customer

who has already left (Alhaddad, 2015; Ofori et al., 2017). Thus, the rudimentary challenge for commercial banks is to retain customers' loyalty. The customers, who are loyal, do not hunt the information about substitute products or services from the competitors in the industry (Delassus & Descotes, 2012). Reasonably, companies should be more interested in their endeavours and properties on loyal consumers. Similarly, effective marketing strategies are the prerequisites to enhance customer loyalty because the success of business relies on the level of customer loyalty (Khokhar et al., 2011).

Since the banking business is highly competitive across the world, banks use the loyalty of customers as a corporate instrument for achieving competitive advantage (Ferreira et al., 2015; Zameer et al., 2015). In line with this trend, many financial organisations have seen customer loyalty as a crucial factor (Beerli et al., 2004; Coetzee et al., 2013). Kandampully et al. (2015) have claimed that the attributes of product and service are no longer an effective means for the business to separate from their counterparts; the key differentiator is the loyal customer. Loyal customers serve as representatives of the organization, its products, and services, and advertise using their word of mouth highlighting the features that the clientele are provided with (Kandampully et al., 2015; Makanyeza, 2015). Thus, the loyalty of customer guarantees the organizations' efficiency that leads to business success (Beerli et al., 2004; Ferreira et al., 2015; Ishaq, 2012; Kandampully & Suhartanto, 2000; Kandampully et al., 2015; Kim & Lee, 2010; Kim et al., 2015; Tarus & Rabach, 2013; Wang, 2010).

In an increasing competitive business environment, customer satisfaction has developed as an important instrument for measuring the performance of a company (kitapci et al., 2013). Customer satisfaction relies mainly on customer fulfilment based on organizations' ability to meet their expectations efficiently by delivering the appropriate products and services (Suchanek et al., 2014). Paul and Srivastav (2016) have viewed that satisfied customer becomes gratified by their purchases which attained their purpose and have a delightful experience. Researchers further mentioned regarding satisfied customers that such class of clientele keep in touch with the company for a longer duration of time and buy more products or services than discontented buyers and they will eventually become loyal toward the brands. In this way, it is extensively permitted that satisfaction is responsible for the establishment of loyalty and there is a positive relationship between two psychological states of customers (Oral & Kara, 2014; Caruana,

2002). In addition, amplified customer satisfaction is considered as the precondition to generate loyal customers (Lee & Seong, 2020; Sahin et al., 2011). From a business perspective, customer satisfaction is one of the key factors in augmenting sales, as satisfaction leads customers to take decision to repurchase. (Murugiah & Akgam, 2015; Agbor, 2011; Mittal & Kamakura, 2001). Thus, customer satisfaction has arisen as an essential ingredient in developing customer loyalty in today's excruciatingly competitive business environment.

The quality of service in marketing research has gained considerable attention over the last decades (Izogo & Ogba, 2015; Seth et al., 2004). It is considered as a critical success element to attract the customers for the business firm (Suhidayat et al., 2016). Guo et al. (2008) identified that the quality of service is a comparison of what to expect by consumers to what is obtained by consumers. Likewise, service quality refers to the customers' expectations and experiences to a specific product and/or service bestowed by a service provider (Ali et al., 2019). In a competitive economy, the success of a business is comprehensively dependent upon cutting-edge service quality (Utami & Ekawati, 2020). As a result, a company enables it to gain high profitability, customer satisfaction and loyalty by ensuring service quality through its operations (Ishaq, 2012).

Moreover, the quality of service in marketing literature indicates to the level of service performance, which is regarded as a vital success factor for companies to distinguish themselves from competitors (Zeithaml et al., 2011; Parasuraman et al., 1985, 1988). A remarkable number of researchers have acknowledged similar observations about the banking sector across the globe (Makanyeza & Chikazhe, 2017; Moghavvemi et al., 2018; Vera & Trujilo, 2013). Researchers have further suggested that since the majority of banks provide almost similar products and services to their consumers, the managing authority of bank needs to offer the superior service quality for their clients in time (Paul et al., 2016; Stamenkov & Dika, 2015). The empirics cued that there is a close relation among banking service quality and expected marketing outcomes, like as increased revenue, consumer satisfaction as well as loyalty (Abdullah et al., 2011; Al-hawari et al., 2009). Therefore, researchers have invested much effort into the conceptualization and measurement of service quality and its relationship with customer loyalty through ensuring their satisfaction (Akroush et al., 2015; Chumpitaz & Paparoidamis, 2004; Dahiyat et al., 2011).

Perceived value has become an essential yardstick in the designing of managerial strategies for creating, communicating and presenting value to the consumer (Kotler & Keller, 2011). Holbrook (1994) has declared, cited by Auka (2016) that perceived value is the main reason for all of the marketing activities and primary inspiration for customer patronage. Chen (2015) has acknowledged that customer perceived value refers to the overall measurement of an object with respect to intrinsic and extrinsic dimensions by means of a comparison of perceived benefits and perceived expenses in a reasonable and experiential way. Providing favorable value is now known as one of the key factors for any type of firms' success (Wang et al., 2016).

In the business relationship, perceived value is developed and produced in a mutual process between two parties (customers and service providers) that is assessed through the viewpoint of customers' consumption experience (Agustin & Singh, 2005; Anderson et al., 2006; Grönroos, 2011; Bolton et al., 2014; Floh et al., 2014). Perceived value is the concept that is considered by many businesses for ranking customers and is an important element in consumer decision-making (Rust & Oliver, 1994; cited by Donighi & Yousefi, 2016). This is the way that increases customers' willingness to purchase and reduce their searching intentions for alternatives which generate a long-term connection with service providers (Akroush & Mahadin, 2019). At present, on the basis of customers' perception of value with a specific goal to build customer loyalty, banks have added sundry innovative products and services to ensure superior values to their clientele.

### **1.3 BANKING SECTOR IN BANGLADESH: AN OVERVIEW**

Bangladesh is a developing country in South Asia. The economic strength of the country is increasing day by day. The banking sector is an innate part of an economy in order for operating its economic operations (Uddin & Bristy, 2014). A country's economic scenario relies on the stability of its financial system (Teker et al., 2011). Bank is the intermediary element of a financial system and plays a crucial role in financial markets (Guisse, 2012). Al-Karim and Alam (2013) have clarified that bank is a financial intermediary channelling finance that collects fund from households and groups and disburses the collected amount to the lenders or investors through charging multifaceted