



# Influence of Service Quality on Customer Satisfaction and Customer Loyalty in the Private Banking Sector of Bangladesh: A PLS Approach

Rashed Al Karim

Associate Professor, School of Business, East Delta University

\* Corresponding author: alkarim.rashed@gmail.com; rashed@eastdelta.edu.bd

## Abstract

In this competitive business era, the key strategy for the success and survival of any business organization is the deliverance of quality services to customers because service quality has beneficial effect on the bottom-line performance for the organization. As a financial organization, banks are continuously introducing their new products and services at regular intervals to satisfy and retain their customers and hence, achieving high levels of service is one of techniques to keep customers both satisfied and loyal. Thus, this study intends to determine the impact of Service Quality on Customer Satisfaction and Customer Loyalty in private banking sector of Bangladesh. Five dimensions of Servqual Model such as tangibility, reliability, responsiveness, empathy, and assurance (Parasuraman, Zeithaml, & Berry, 1985) are considered as the base for this study. A structured questionnaire with 5-point Likert scale has been used to gather the data for this study by conducting survey. The sample size is 100 and chosen on a convenient basis. Data has been analyzed by using PLS 3.0 software. SPSS software (version 20) package was also used to present the data demographically. Result shows that tangibility and empathy have significant effect on customer satisfaction, on the other hand, reliability, responsiveness and assurance don't have any significant effect on customer satisfaction. Moreover, customer satisfaction has direct significant effect on customer loyalty. Finally, this study proposed few recommendations for the managerial implication.

**Keywords:** Service Quality, Customer Satisfaction, Customer Loyalty, Banking Sector, PLS.

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## INTRODUCTION

### Background of the Study

The banking industry in Bangladesh is highly competitive and in view of that customers in the banking sector are in a strong bargaining position. Customers demand for better quality service has triggered the competition among banks. In an increasingly competitive environment, organizations operating in service industries should consider service quality a key strategic issue for the business success (Spathis et al., 2004). Banks are introducing new products and services at regular intervals to satisfy and retain different types of customers (Kaura, Prasad & Sharma, 2015). Achieving high levels of service is one of method to keep customers both satisfied and loyal (Perng, 2007). Ha and Jang (2009) argued that service failure occurs when a customer perception does not meet with customer expectations. This failure may lead customers to switch the bank to its competitors and also lead to a destroyed relationship between the customer and organization. In this growing competition, service quality is one of the critical success factors that influence the competitiveness of the organization. The customer is the focus and customer service is the differentiating factors (Guo et al., 2008). A bank can differentiate itself from competitors by providing high quality customer service (Naeem, Akram & Saif, 2009). In some earlier studies, service quality has been referred as the extent to which a service meets customer's needs or expectations (Lewis & Mitchell, 1990). When a bank meets customer's needs and expectations, it can satisfy its customers. This customer satisfaction influences customer's repurchase intension and make them loyal

customer for the bank as the key to customer retention is customer satisfaction (Kotler & Armstrong, 2010). Investigation indicates that companies with an excellent customer service record reported a 72% increase in profit per employee, compared to similar organizations that have demonstrated poor customer service; it is also five times costlier to attract new customers than to retain existing customers (Duncan, 2004). A bank has to improve the service quality constantly to gain competitive advantage. Customer satisfaction and customer loyalty via service quality helps a bank to increase its word of mouth advertisement (WOM), gain profitability and achieve market leadership. Therefore, the purpose of this study is to determine how service quality influence customers satisfaction and customer loyalty in the private banking sector of Bangladesh.

## LITERATURE REVIEW

### Service Quality and its Dimensions

Service quality is the difference between customer expectations about perceived service and the actual service provided (Parasuraman et al., 1985). In this competitive era, service quality is like a weapon to sustain and compete with the competitors. Particularly in the banking sector, service quality is mostly essential because it provides high level of customer satisfaction, and thus it became a greater means of gaining competitive advantage (Almossawi, 2001). Especially in the context of private banking sector of Bangladesh, service quality is the key to grab customers' attention by achieving customers' satisfaction and customers' loyalty. As there are huge options to the customers, if



customers are not properly satisfied with the service provider, they will not be loyal to the organization and will switch to its competitors. To satisfy customers and make them loyal, it is necessary to strictly emphasize on organization's service quality as it has a great impact on customers satisfaction and customers loyalty.

Parasuraman et al. (1985) and Zeithaml, Parasuraman and Berry (1990) noted that deliverance of quality service works as the strategic method for the success and survival of any business institution. Clow (1993) acknowledged service quality as the life-giving blood of an organization while Berry, Seiders, and Grewal (2002) identified it as the most powerful competition weapon. Parasuraman et al. (1988) demarcated service quality as a global judgment or attitude relating to the overall excellence or superiority of the service. According to Akroush (2008), service quality is the result of the distinction made by customers about what they believe service firms should offer, and perceptions of the performance of firms providing the services. Gronroos (2007) also defined service quality as the outcome of the comparison that consumers make between their expectations and perceptions. It is also conceptualized as the consumer's overall impression of the relative inferiority or superiority of the services (Zeithaml, Parasuraman & Berry, 1990). Moreover, services are continuous process of constant interactions between customers and service providers consisting a number of intangible activities provided as premium solutions to the problems of customers and including the physical and financial resources and any other useful elements of the system involved in providing these services (Grönroos & Ojasalo, 2004).

To attain service quality, it is mandatory to distinguish the important aspects of quality (Mosahab, Mahamud & Ramayah, 2010). Parasuraman et al. (1985) identified ten dimensions of service quality (e.g. credibility, security, accessibility, communication, understanding the consumer, tangibles, reliability, responsiveness, competence and courtesy). Later by using a factor analysis, Parasuraman et al. (1988) reduced these ten dimensions into fivefold dimension of Reliability, Responsiveness, Assurance, Empathy and Tangibles as a basis for making the most popular model used for evaluation of service quality, a well-known scale named as SERVQUAL developed by Parasuraman et al. (1985, 1988). Based on the five dimensions, a survey instrument of 22 items was developed for measuring service quality. Service quality has received a great deal of concentration from both academicians and practitioners (Negi, 2009) and service marketing literature defined service quality as the overall assessment of a service by the customer (Eshghi, Haughton & Topi, 2007). It has become essential in academic literature due to its influence on firm performance, customer satisfaction and customer loyalty (Vilkaitė-Vaitonė & Papsiene, 2016). Particularly in banking industry, premium service quality plays a crucial role for customers in evaluating the performance of a service provider and is the key to gain customer satisfaction and customer loyalty (Khan & Fasih, 2014).

### Service Quality in Banking Sector

Bank and financial services are demand driven industry, which represent significant part of the services industry. There has been a remarkable change in the way of banking in the last few years because customers have precisely demanded globally quality services from banks and with various choices available, customers are not willing to go with anything less than the best (Karim & Chowdhury, 2014). Banks are expanding across borders, offering a diverse range of competitive services and restructuring their services in order to make use of rapid technology and to meet the changing needs of customers (Arasli, Katircioglu, & Smadi, 2005). Many regulatory, structural and technological changes have taken place within the world banking industry, in line with the trend towards a more integrated global banking environment (Angur Natarajan, & Jahera, 1999). In addition to this, the banking sector in many developing countries going through change in order to keep up with world trends (Yavas, & Riecken 1997). To differentiate itself from its competitors, banks have to gain competitive advantages by increasing sales and market shares, providing opportunities for cross selling, improving customer relations

thus enhancing the corporate image, reliability, responsiveness, credibility and communication results in the satisfaction and retention of customers and employee, thus reducing turnover rate through service quality (Newman, 2001). The rapidly changing and highly competitive environment which banks are forced to operate within are pushing them to rethink their attitude towards customer satisfaction and optimization of service quality (Arasli, et al., 2005).

Berry et al. (1988) observed that quality of service is very important in separating competing businesses in the retail sector as well as in banking. Lewis (1993) found that service quality works as the most effective means of establishing a competitive position and improving profit performance. There have been a large number of researchers who recognized service quality as a crucial means of providing a competitive advantage to banks, and according to Soteriou and Stavrinides (1997) the importance of service quality has been documented in numerous studies. Banks once relied on products to make their profit margin in a highly regulated industry and the customers basically were on the sidelines, but today, banks are driven by customers, who demand service quality. Banks have recognized the need to meet customer's aspirations through service quality as it is a critical motivating force to drive the bank up in the high technology ladder (Karim & Chowdhury, 2014). Besides, in the banking industry, service quality plays a vital role in improving customer satisfaction (Ali & Reza, 2017). Current competition trends in banking sector indicate that if customer is satisfied, then bank will prosper more positively (Siddiqi, 2010). Most organizations monitor their services quality on a regular basis to ensure maximum customer satisfaction and to improve customer retention and loyalty (Khan & Fasih, 2014). For achieving better level of service quality, bank managers should develop working lines on which service quality is refined to increase the customer satisfaction (Khalid et al., 2011).

### Service Quality and Customer Satisfaction

According to Hunt (1991), satisfaction is an evaluation of emotion while Oliver (1981) identified satisfaction is a summary of psychological state originating when the emotion surrounding disconfirmed expectation is coupled with the consumer's prior feelings about the consumption experience. Thus, customer satisfaction generally means customer reaction to the state of fulfillment, and customer judgment of the fulfilled state (Oliver, 2000) and defined as overall positive or negative feelings about the net value of services received from a supplier (Barnes, Fox, & Morris, 2004). In line with Wangenheim (2003), customer satisfaction as the outcome of a comparison between expected and perceived performance throughout the customer relationship while as per Rust & Oliver (1994), customer satisfaction reflects the extent to which a consumer believes that the possession or use of a service generate positive feelings.

Over the past few years there has been a flourished emphasis on service quality and customer satisfaction in business and academia equally. The relationship between customer satisfaction and service quality has received a good deal of attention in the literature as well as found positive relationship between them (Budianto, 2019; Tseng, 2019; Aggarwal, 2019; Zameer, Wang, Yasmeen & Ahmed, 2019; Afthanorhan, Awang, Rashid, Foziah & Ghazali, 2019; Karim & Chowdhury, 2014). Satisfaction and service quality have certain things in common, but satisfaction generally is a broader concept, whereas service quality focuses specifically on dimensions of service (Wilson, Zeithaml, Binter, & Gremler, 2008). The authors also stated that the key difference between service quality and customer satisfaction is that quality relates to managerial delivery of the service while satisfaction reflects customers experiences with that service. Satisfaction is a post consumption experience which compares perceived quality with expected quality, whereas service quality refers to a global evaluation of a firm's service delivery system (Anderson & Fornell, 1994).

According to Jiang & Zhang, (2016), service quality and customers satisfaction are closely related constructs, but these are not interchangeable, although both constructs include a comparison of actual quality of service provided and the expected level of service quality. In marketing literature, though service quality and customer



satisfaction have been conceptualized as a distinct, but they are closely related constructs (Siddiqi, 2011). In the service organizations, the service experience determines the level of customer satisfaction and accordingly accomplishing customer satisfaction is a vital target for most service firms today (Rhee & Rha, 2009). Besides, Dick and Basu (1994), Anderson and Fornell (1994), Iacobucci, Ostrom, and Grayson (1995), and Rust and Oliver (1994) stated that, quality is one dimension on which satisfaction is depended. Although it is stated that other factors such as price and product quality can affect customer satisfaction, perceived service quality is a component of customer satisfaction (Zeithaml & Bitner, 2003). To attain a high level of customer satisfaction, several researchers recommend that a high level of service quality should be delivered by the service provider as service quality is normally considered an antecedent of customer satisfaction (Shanka, 2012). Most organizations observe their services quality on a regular basis to ensure maximum customer satisfaction and to improve customer retention and loyalty (Khan & Fasih, 2014). Through service quality, organizations can reach a higher level of service quality, a higher level of customer satisfaction, and can maintain a constant competitive advantage (Meuter et al., 2000). As service quality improves, the probability of customer satisfaction increases (Shanka, 2012) and it is also considered to be an important prerequisite for establishing and maintaining a satisfactory relationship with customers (Sureshchandar et al., 2002).

**Customer Loyalty**

Singh and Sirdeshmukh (2000) mentioned customer loyalty as the market place currency of the twenty-first century. Oliver (1999) defined customer loyalty as is the overall behavior of customer regarding product, service or any other aspect of the organization in which customer is involved. The author also described customer loyalty as a commitment to re-buy or re-patronize a preferred product/service consistently in the future. Neal (1999) explained customer loyalty as a behavior and defined customer loyalty as the proportion of times a purchaser chooses the same product or service in a specific category compared to the total number of purchases made by the purchaser in that category, under the condition that other acceptable products or services are conveniently available in that category. Moreover, according to Zeithaml, Berry, and Parasuraman (1996), customer loyalty is kind of future prediction about the intentions of the customer to do business with the firm as well as multidimensional form which comprises both positive and negative responses. In the same way, Uncles et al. (2003) explained customer loyalty in terms of attitude and behavior. The strength of this attitude is considered by many researchers as the key predictor of a brand’s purchase and repeat investment (Uncles et al. 2003). Duffy (2003) described customer loyalty is a feeling of association which a customer has towards a brand while according to Foss and Stone (2001), customer loyalty relates to what customers think and do (or try to do) and Colgate et al. (1996) distinguished that it is not always the case that customer defection is the inverse to loyalty.

On the word of Bloemer and Kasper (1995), loyalty is interpreted as true loyalty rather than repeat purchasing behavior, which is the actual re-buying of a brand, regardless of commitment. Customer loyalty may be measured by asking people how much they like the brand, feel committed to it, will recommend it to others, and have positive beliefs and feelings about it (Donio et al., 2006). Gee et al. (2008) acknowledged the advantages of customer loyalty such as: the service cost of a loyal customer is less than new customers; they will pay higher costs for a set of products; and for a company, a loyal customer will act as a word-of-mouth marketing agent. Thus, in line with Walsh, Groth, and Wiedmann (2005), it is better to look after the existing customer before acquiring new customers because the cost of serving a loyal customer is five or six times less than a new customer. Heskett et al. (1994) suggested that customer loyalty motivates customers for repeat purchases and persuades them to refer those products or services to others. Customer loyalty can positively contribute towards this basic aim of the banks (Hayes, 2008) as it is an

active tool for generating repeat sales from the customers (Chu & Shiu, 2009).

**Customer Satisfaction and Customer Loyalty**

A considerable amount of service management literature has shown the link between customer satisfaction and customer loyalty (Kumar et al., 2013). Both the service management and the marketing literatures suggested that there is a strong theoretical foundation for an empirical exploration of the linkages between customer satisfaction and customer loyalty (Shanka, 2012). Numerous prior investigations (i.e., Schirmer et al., 2018; Chen, Chang, & Lin, 2012; Donio et al., 2006) found a strong positive correlation between customer satisfaction and customer loyalty. Hart and Johnson (1999) considered total satisfaction as one of the conditions of true customer loyalty. Sondoh et al., (2007) stated that customer satisfaction is the most important driver and plays a vital role to enhance the customer loyalty. Besides, most of the researchers also found customer satisfaction as one of the significant predictors of customer loyalty (Faullant et al., 2008). Other several studies (such as, Shanka, 2012; Mensah, 2010; He & Song, 2009) have indeed found satisfaction to be a leading factor in determining loyalty. If a customer is satisfied, customer’s loyalty will increase and hence customer’s intention to switch banks will decrease in line with Hoq and Amin (2010). Moreover, past studies have indicated that customer loyalty significantly influences the customer intentions to revisit service organizations (Srivastava & Kaul, 2016). Consequently, retention of satisfied customers is also certain for the long-term sustainability of the services organizations (Izogo & Ogba, 2015). Furthermore, Oh and Kim (2017) revealed that by providing high product and service value and improving the satisfaction level of customer, organisations can easily make their customer loyal. Similarly, Wu and Li, (2018) mentioned that greater customer satisfaction can uplift the customer frequency of visits as well as will generate more loyal customers (Ford, Paparoidamis, & Chumpitaz, 2015). Shanka (2012) asserted that high level of customer satisfaction will result in increased loyalty for the firm and is positively associated with repurchase intentions, positive words of mouth and profitability. Scholars in business research are of the opinion that long term customer loyalty is the real asset for services concerns, and it increase firm’s value (Mostajer Haghghi, Baum, & Shafti, 2014). Lastly, as per the suggestion of Bowen and Chen McCain (2015), customer satisfaction is linked to loyalty and loyalty, in turn, is linked to the performance of service organizations.

**Research Framework and Hypotheses of the Study**

Objectives of this study are to determine the impact of service quality on customer satisfaction in banking sector of Bangladesh and to determine the impact of customer satisfaction on customer loyalty. In literature review, service quality, service quality in banking sector, customer satisfaction, relation between service quality and customer satisfaction, customer loyalty and relation between customer satisfaction and customer loyalty were explained. From the above discussion, the following framework is proposed to attain the objectives of the present study.

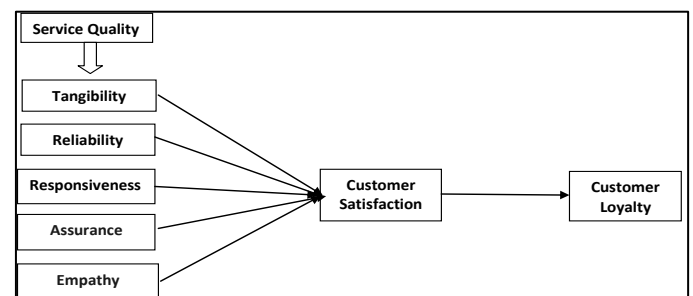


Fig. 1. Research Framework

Moreover, in proportion to research framework, there are six hypotheses which are:





- H1: There is a positive relation between tangibility and customer satisfaction.
- H2: There is a positive relation between reliability and customer satisfaction.
- H3: There is a positive relation between responsiveness and customer satisfaction.
- H4: There is a positive relation between assurance and customer satisfaction.
- H5: There is a positive relation between empathy and customer satisfaction.
- H6: There is a positive relation between customer satisfaction and customer loyalty.

## RESEARCH METHODS

### Questionnaire Design

For this study, structured questionnaire was used to gather data through survey. The questionnaire has two parts. The first part is demographic which involves five questions on gender, age, education, profession and income to understand the respondent’s profile and the second part comprises 31 main research questions that were segmented into seven sections including, tangibles, reliability, responsiveness, assurance, empathy, customer satisfaction and customer loyalty.

### Sampling Technique & Sample Size

A total of 130 questionnaires were distributed to the respondents in the selected private bank and all the respondents were selected executing convenience sampling technique. After completing data collection procedure, it was found that a total of 100 questionnaires were returned in useable condition which represented 76.92% response rate.

### Measurement and Scaling

The independent variable of this study is service quality which has five dimensions including tangibility, reliability, responsiveness, assurance and empathy. Tangibility has four items, reliability has five items, responsiveness has four items, assurance has four items and empathy has five items. The dependent variables of this study are customer satisfaction and customer loyalty. The dependent variable, customer satisfaction is measured by the same dimensions of service quality with the help of SERVQUAL, which was developed by Parasuraman, Zeithaml, and Berry, (1988). The other dependent variable was customer loyalty which was measured by four items and adapted from Zeithaml, Berry, & Parasuraman (1996) (See table-1). All these items were scaled in a five-point Likert scale starting from Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4) and Strongly Agree (5).

## FINDINGS

### Respondents Demographic Profile

The first part of questionnaire was demographic part which consists of five questions such as: Gender, Age, Education, Profession and Income. About 37.00 percent of respondents are female, while male constitutes 63.00 percent. This signifies that the private banking sector of Bangladesh is male dominant. Around 73.00 percent respondents are between 21-30 years, 14.00 percent are between 31-40 years, 10.00 percent are between 41-50 years, and 3.00 percent are between 51 and above. Moreover, 50.00 percent of the respondents are under graduate while 28.00 percent are graduate and rest 22.00 percent of the respondents are post graduate followed by 43.00 percent students, 23.00 percent service holders, 19 percent business holders, 4.00 percent professionals and 11.00 percent others.

### Reliability Test

Hair et al., (2014) opined that if the Cronbach alpha is less than 0.60, the study data is considered poor, while it is acceptable at 0.70 whereas, for Cronbach alpha over 0.80 is considered to be more reliable. In agreement with Nunnally (1978), the value of Cronbach’s alpha should be 0.700 or above. But some of the studies also considered 0.600 as an acceptable value (Gerrard, Cunningham, & Devlin, 2006). In this study, the study of Cronbach’s alpha is 0.830 which is considered to be highly reliable as the value is more than 0.70).

**Table-3:** Reliability Statistics

Variables	Cronbach’s Alpha (α)	No. of Items
TAN	0.756	4
REL	0.822	5
RES	0.876	4
ASS	0.840	4
EMP	0.842	5
C.S	0.849	5
C.L	0.828	4
Average	0.830	31

### Descriptive Statistical Analysis

Here, the table is showing the statistical description of Service Quality dimensions where it has found that Customer Satisfaction (CS) and Customer Loyalty (CL) are perceived by Reliability (with the highest mean scores, i.e. M = 3.9960, SD = .58671) to the most dominant service quality dimension that evident to a considerable extent, Assurance (M = 3.9700, SD = .60017), Tangibility (M = 3.9250, SD = .60668), and Empathy (M = 3.8300, SD = 0.60394) which were rated as moderate influencing dimensions of private banking sector of Bangladesh. Responsiveness (M = 3.8250, SD = .72081) with the lowest mean score was perceived on the overall as least dimension of service quality. This means that, the effects of service quality on customer satisfaction and customer loyalty are an approximation to a normal distribution. This also indicates that respondents were in favor of service quality.

**Table-4:** Descriptive Statistics

Constructs	N	Descriptive Statistics			
		Min <sup>m</sup>	Max <sup>n</sup>	Mean	Std. Deviation
TAN	100	1.25	5.00	3.925	.6066
REL	100	2.20	5.00	3.996	.5867
RES	100	1.50	5.00	3.825	.7208
ASS	100	2.00	5.00	3.970	.6001
EMP	100	2.20	5.00	3.830	.6039
CS	100	3.00	5.00	3.944	.5005
CL	100	2.00	5.00	3.822	.7144

### Assessment of Measurement Model (Outer Model)

According to Hair et al. (2014), measurement model should be assessed based on convergent and discriminant validity by the values of Average Variance Extracted (AVE) and Composite Reliability while the indicator reliability was assessed using outer loadings and cross loadings.

### Indicator Reliability

Conventionally, the value for individual item loading should be greater than 0.70 (Hair et al., 2014) while Vinzi et al. (2010) suggested the value of outer loadings should be 0.5 and above. Hulland (1999) offered a cut-off point of 0.40 that any indicator with outer loading less than 0.40 should be removed from the measurement model. From table-5 it has found that the outer loadings of all the items that loaded were greater than 0.5 and fulfilled the threshold value of Vinzi et al. (2010).



**Internal Consistency Reliability**

Hair et al. (2014) suggested that the composite reliability value should be greater than 0.70, although they have provided a slack of 0.60-0.70 as acceptable in exploratory research. Table-5 showed that the value of composite reliability for all the latent constructs have met and exceeded the minimum threshold value of 0.70 as suggested by Hair et al., (2014).

**Convergent Validity**

According to Hair et al. (2014), latent construct should at least explain half of the variance of the indicators. The results (see table-5) reveal that AVE values for all the constructs have met and exceeded the minimum threshold value of 0.5. Hence, the AVE value for two dependent variables Customer Satisfaction (CS) and Customer Loyalty (CR) is 0.625 and 0.695 respectively. The independent variables Tangibility (TAN), Reliability (REL), Responsiveness (RES), Assurance (ASSUR) and Empathy (EMP), have satisfactory AVE values of 0.568, 0.601, 0.736, 0.673 and 0.621 respectively.

**Discriminant Validity**

The discriminant validity was calculated based on Fornell and Larcker (1981), in which the square root of average variance extracted (AVE) for a particular construct should be higher than the correlation of the subject construct with any other construct in the model. Table-6 showed that the square root of AVE of each latent variable (the bold diagonal values) is higher than the correlations of the latent variables (the un-bolded diagonal values) and achieves Fornell-Larcker's (1981) criterion and indicating acceptable discriminant validity.

**Table-6:** Fornell-Larcker Criteria

	ASS	CL	CS	EMP	REL	RES	TAN	AVE
ASS	<b>0.820</b>							<b>0.673</b>
CL	0.587	<b>0.834</b>						<b>0.695</b>
CS	0.571	0.505	<b>0.791</b>					<b>0.625</b>
EMP	0.702	0.473	0.701	<b>0.788</b>				<b>0.621</b>
REL	0.577	0.689	0.496	0.505	<b>0.775</b>			<b>0.601</b>
RES	0.714	0.557	0.581	0.724	0.602	<b>0.858</b>		<b>0.736</b>
TAN	0.341	0.454	0.553	0.448	0.539	0.582	<b>0.754</b>	<b>0.568</b>

Similarly, along with Chin's (1998) criterion, the outer loadings of a construct should be greater than the cross-loadings. From table-7, it was found that indicators loadings (the bold values) are greater than its cross-loadings which provide support to the Chin's (1998) criterion of attaining divergent validity in acceptable level.

**Assessment of Structural Model (Inner Model)**

*HYPOTHESES TESTING*

The following table-8 showed the result of direct hypotheses. According to Chin (2010), the t-value should be above 1.645 and P-value should be less than 0.05 at 95% confident interval. The result supported three hypotheses out of six. Tangibility and Empathy have direct effect on customer satisfaction, on the other hand, Reliability, Responsiveness and Assurance don't have direct effect on customer satisfaction. Moreover, Customer Satisfaction has direct positive effect on Customer Loyalty as it is fulfilling t-value and p-value conditions suggested by Chin (2010).

**Table-8:** Result of Direct Hypotheses

Hypotheses	Direct Relationship	T-value	P-value	Decision
H1	TAN>CS	4.036	0.000	Supported
H2	REL>CS	0.421	0.674	Not Supported
H3	RES>CS	0.567	0.571	Not Supported
H4	ASS>CS	1.016	0.310	Not Supported
H5	EMP>CS	3.793	0.000	Supported

H6	CS>CL	6.033	0.000	Supported
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**Assessment of Coefficient of Determination (R<sup>2</sup>)**

Coefficient of determination (R<sup>2</sup>) is the variance explained in the endogenous latent variable by exogenous latent variables (Henseler et al., 2009). According to Falk and Miller (1992), an R<sup>2</sup> is considered satisfactorily if it exceeds 1.5 percent. However, Cohen (1988) and Chin (1998) recommended three levels of structural model quality as substantial (0.26 and 0.67), moderate (0.31 and 0.33) and weak (0.02 and 0.19) respectively. According to table-9, the value of CS and CL are respectively 0.576 and 0.255. So, Value of CS is precisely a substantial and CL is moderate respectively according to Cohen (1988) and Chin (1998) respectively.

**Table-9:** Result of R Square (R<sup>2</sup>)

Dependent Variable	R Square (R <sup>2</sup> )	R Square Adjusted
CS	0.576	0.554
CL	0.255	0.248

**Effect Size (f<sup>2</sup>)**

As Cohen (1988) suggested that further analysis should be carried out to evaluate the effect size (f<sup>2</sup>) of the exogenous variable in the main effect model. The effect sizes are evaluated as small (0.02), medium (0.15) or large (0.35) respectively, according to Cohen (1988). Although Chin et al. (2003) posited that even a small effect size should not be neglected, and arguing thus, "even a small interaction effect can be meaningful under extreme moderating conditions, if the resulting beta changes are meaningful, then it is important to take these conditions into account" (Chin et al., 2003, p.211).

**Table-10:** Effect Size (f<sup>2</sup>)

Endogenous Construct	Exogenous Construct	f <sup>2</sup>	Effect Size
CS	TAN	0.128	Small
	REL	0.003	No effect
	RES	0.008	No effect
CL	ASS	0.023	Small
	EMP	0.239	Medium
	CS	0.343	Medium

Thus, the table-10 displayed that according to Cohen (1988), Empathy has biggest effect on customer satisfaction with 0.239 followed by Tangibles with 0.128 among exogenous constructs. Assurance has small effect on customer satisfaction with 0.023. Reliability and Responsiveness have almost no effect on customer satisfaction. On the other hand, customer satisfaction has medium effect on customer loyalty.

**Predictive Relevance (Q<sup>2</sup>)**

Apart from examining the degree to which the model explained (R<sup>2</sup>) variance in the depended variable as a condition for predictive accuracy, Hair et al. (2014) recommended that Stone-Geisser's Q<sup>2</sup> should be used to examine the predictive relevance of a model (Geisser, 1974; Stone, 1974). It is evaluated as having predictive relevance, if the Q<sup>2</sup> value for the endogenous latent construct is greater than 0 (Hair et al., 2014). The table-11 illustrated that, there is substantial evidence of predictive relevance, because the value of the Q<sup>2</sup> exceeds 0 in line with Hair et al., (2014).

**Table-11:** Predictive Relevance (Q<sup>2</sup>)

Total	Construct Cross Validated Redundancy		
	SSO	SSE	Q <sup>2</sup> (=1-SSE/SSO)
CS	500.000	339.961	<b>0.320</b>
CL	400.000	335.222	<b>0.162</b>



## Discussion, Research Implications & Conclusion

This study is targeted to explore the impact of service quality dimensions on customer satisfaction and customer loyalty for private banking sector, Bangladesh. Findings of the study offered that, the more the quality of service, the more customers are satisfied with bank and simultaneously, the more customers are satisfied; the more customers become loyal to the bank. Considering service quality dimensions, "Tangibility" and "Empathy" appear to be two of the most important variables in the model as they offer the highest effect on customer satisfaction. According to this, customers mostly care about visually appealing physical facilities, well dressed and neat employees, up to date equipment and consistent physical facilities with banking sector. Along with these, customers care about promised time, error free record, timely response, reassurance and dependability of bank. This finding is important, because it highlights how service quality dimensions contribute in customer satisfaction. And, customer satisfaction leads to customer loyalty. Customer satisfaction has direct effect on customer loyalty. Hence, based on the results, it is recommended that private banking sector should keep a standard service quality and improve continuously to be competitive and updated. To be competitive and updated, they should be more concerned to their physical facilities and equipment consistent with banking sector. And for this, they should be more skilled in technology. Furthermore, they need to focus on their promised time frame. They require being more aware in keeping error free record. Besides, this sector needs to be more responsive, sympathetic, reassuring, and more dependable to their customers.

As the finding also suggests customer satisfaction has a very significant effect on customer loyalty, it is needed to emphasize more on customer satisfaction to achieve customer loyalty because, a loyal customer is not only an asset for bank, but also a valuable way to spread positive word of mouth to existing and potential customers. Previous studies show that, if a customer is not satisfied, he/she will not be loyal to the bank and switch to its competitors. Along with this, he/she will also spread negative word of mouth which is threat for the bank. By providing better quality of service, the banking sector may keep their customers satisfied which in turn lead to customer loyalty. Last but not least, as tangibility and empathy effect most in customer satisfaction, they will keep it up and keep developing it more. Along with this, banking organization may pay attention to rest of the three dimensions including reliability, responsiveness and empathy which currently not affecting their customer satisfaction while these three dimensions are also essential to increase service quality and should not be ignored.

To sum up, service quality is a crucial factor in service sector that is a weapon to be competitive. It offers broader and greater scope to achieve customer satisfaction and thus make them loyal customer for the company. Providing quality service became a vital means in service sector, especially in banking sector because it is the way to make customer satisfied properly by fulfilling their needs and requirements and a satisfied customer often become loyal customer of the bank who usually have less tendency to switch to its competitors.

## Study Limitations

The limitation of the study is that, the survey was done only in Chittagong. Also, the sample size was 100 which may not be representative of the whole population. Moreover due to time constraints and lack of enough funding, data from the whole private banking sector of the country was not possible to collect. Lastly, respondents' unwillingness to cooperate while doing survey was also a constraint in this research study.

## Recommendation for Further Study

- Further study can be done by collecting more sample size.
- Data can be gathered from the whole banking sector of Bangladesh to generalise the results more effectually.
- Data can be analyzed by assessing more scales of Service Quality such as SERVPERF, E-Qual.

- In future, data can be analyzed by exploring more aspects of Service Quality.

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Appendix

Table-1: Measurement of variable

Variables	Items	Source	
Service Quality	TAN1	Physical facilities are visually appealing	
	TAN2	Employees are well dressed	
	TAN3	Equipment are up to date	
	TAN4	Appearance of the physical facilities are consistent	
	REL1	Provides services at the promised time	
	REL2	Keeps an error free record	
	REL3	Meets their promised time frame for response	
	REL4	Sympathetic & reassuring when customer has problems	
	REL5	Organization is dependable	
	RES1	Employees are willing to help when needed	Parasuraman, et al. (1988)
	RES2	Employees are very prompt in providing the services	
	RES3	Employees performed to complete their services in time	
	RES4	Employees are never too busy to respond your request	
	ASS1	I feel secured while doing transaction with SBAC bank	
	ASS2	Employees are very cooperative and courteous with me	
ASS3	Employees are knowledgeable to reply my query		
ASS4	The way employees behave, I feel them trustworthy		
EMP1	Employees cognize my specific needs and requirements		
EMP2	Has convenient operation hours for their customers		
EMP3	Has their customers best interest at heart		
EMP4	Gives personal attention to their customers		
EMP5	Provides individual attention to their customers		
Customer Satisfaction	CS1	I am satisfied with the services under tangibles	
	CS2	I am satisfied with the services under reliability	
	CS3	I am satisfied with the services under responsiveness	
	CS4	I am satisfied with the services under assurance	
	CS5	I am satisfied with the services under empathy	
Customer Loyalty	CL1	I will say positive things about X	Zeithaml, et al. (1996)
	CL2	I will recommend X to other people	
	CL3	I consider X as my first choice among others	
	CL4	I will continue as a client of X even if charges are increased.	

Table-2: Demographic Profile

Demographic	Category	Frequency	Percent (%)
Gender	Female	37	37.00
	Male	63	63.00
	Total	100	100.00





	Less than 20	0	0.00
	21-30	73	73.00
	31-40	14	14.00
Age	41-50	10	10.00
	51 and above	3	3.00
	<b>Total</b>	<b>100</b>	<b>100.00</b>
	Under Graduate	50	50.00
	Graduate	28	28.00
Education	Post Graduate	22	22.00
	<b>Total</b>	<b>100</b>	<b>100.00</b>
	Student	43	43.00
	Service Holder	23	23.00
Profession	Business Person	19	19.00
	Professional	4	4.00
	Others	11	11.00
	<b>Total</b>	<b>100</b>	<b>100.00</b>
	Below Tk. 30,000	60	60.00
	Tk. 30,000 - Tk. 50,000	25	25.00
Income	Above Tk. 50.000	15	15.00
	<b>Total</b>	<b>100</b>	<b>100.00</b>

**Table-5:** Construct Reliability, Cronbach's Alpha, Composite Reliability & AVE

Construct	Items	Loadings	Cronbach's Alpha	Composite Reliability	AVE
Tangibility	TAN1	0.776	0.766	0.839	0.568
	TAN2	0.842			
	TAN3	0.707			
	TAN4	0.68			
Reliability	REL1	0.684	0.828	0.88	0.601
	REL2	0.826			
	REL3	0.839			
	REL4	0.904			
	REL5	0.578			
Responsiveness	RES1	0.821	0.88	0.917	0.736
	RES2	0.858			
	RES3	0.832			
	RES4	0.917			
Assurance	ASS1	0.814	0.841	0.892	0.673
	ASS2	0.774			
	ASS3	0.824			
	ASS4	0.866			
Empathy	EMP1	0.837	0.851	0.891	0.621
	EMP2	0.708			
	EMP3	0.784			
	EMP4	0.843			
	EMP5	0.76			
Customer Satisfaction	CS1	0.612	0.848	0.892	0.625
	CS2	0.807			
	CS3	0.843			
	CS4	0.85			
	CS5	0.817			
Customer Loyalty	CL1	0.790	0.853	0.901	0.695
	CL2	0.871			
	CL3	0.897			
	CL4	0.771			

**Table-7:** Cross Loading of Latent Constructs

	TAN	REL	RES	ASS	EMP	CS	CL
TAN1	<b>0.776</b>	0.412	0.432	0.179	0.366	0.389	0.27
TAN2	<b>0.842</b>	0.538	0.591	0.361	0.491	0.58	0.484
TAN3	<b>0.707</b>	0.302	0.376	0.266	0.178	0.343	0.309
TAN4	<b>0.68</b>	0.252	0.166	0.125	0.155	0.17	0.175
REL1	0.249	<b>0.684</b>	0.301	0.387	0.45	0.308	0.465
REL2	0.448	<b>0.826</b>	0.399	0.363	0.275	0.326	0.603
REL3	0.467	<b>0.839</b>	0.507	0.52	0.394	0.438	0.559
REL4	0.573	<b>0.904</b>	0.631	0.562	0.512	0.514	0.643
REL5	0.257	<b>0.578</b>	0.429	0.348	0.29	0.265	0.358
RES1	0.443	0.507	<b>0.821</b>	0.552	0.679	0.461	0.443
RES2	0.498	0.461	<b>0.858</b>	0.536	0.546	0.445	0.448
RES3	0.558	0.563	<b>0.832</b>	0.642	0.572	0.491	0.517
RES4	0.5	0.533	<b>0.917</b>	0.699	0.697	0.579	0.498



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ASS1	0.248	0.387	0.561	<b>0.814</b>	0.563	0.369	0.385
ASS2	0.393	0.51	0.675	<b>0.774</b>	0.634	0.371	0.498
ASS3	0.244	0.538	0.642	<b>0.824</b>	0.583	0.548	0.534
ASS4	0.265	0.449	0.491	<b>0.866</b>	0.547	0.53	0.489
EMP1	0.482	0.465	0.717	0.708	<b>0.837</b>	0.629	0.42
EMP2	0.3	0.304	0.44	0.586	<b>0.708</b>	0.328	0.305
EMP3	0.308	0.374	0.546	0.584	<b>0.784</b>	0.44	0.452
EMP4	0.33	0.551	0.663	0.569	<b>0.843</b>	0.683	0.484
EMP5	0.323	0.233	0.42	0.349	<b>0.76</b>	0.558	0.184
CS1	0.239	0.347	0.236	0.328	0.37	<b>0.612</b>	0.297
CS2	0.336	0.364	0.319	0.379	0.511	<b>0.807</b>	0.408
CS3	0.532	0.429	0.603	0.505	0.666	<b>0.843</b>	0.484
CS4	0.546	0.405	0.519	0.518	0.597	<b>0.85</b>	0.396
CS5	0.461	0.415	0.534	0.493	0.573	<b>0.817</b>	0.389
CL1	0.45	0.587	0.547	0.498	0.393	0.351	<b>0.790</b>
CL2	0.468	0.643	0.54	0.481	0.463	0.484	<b>0.871</b>
CL3	0.3	0.567	0.416	0.542	0.379	0.446	<b>0.897</b>
CL4	0.3	0.498	0.358	0.44	0.337	0.386	<b>0.771</b>

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