

**SERVICE QUALITY, CUSTOMER SATISFACTION, AND CUSTOMER LOYALTY
IN THE BANKING SECTOR****Nam Nguyen Kim**ncsnam2014@gmail.com

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ABSTRACT

The objective of this study is to examine the relationships among service quality, customer satisfaction, and customer loyalty toward banking services. A survey sample collected via a convenience sampling method was analyzed using a structural equation modeling (SEM) framework. The results show that service quality has a positive effect on both customer satisfaction and customer loyalty. Satisfaction has a direct effect on customer loyalty. Importantly, satisfaction plays a mediating role in the relationship between service quality and customer loyalty. These findings provide important managerial implications to help banks enhance service quality, increase satisfaction, and ultimately maintain customer loyalty to their services.

Keywords:

Satisfaction, service quality, loyalty, banking, Vietnam.

INTRODUCTION

The banking industry is facing an increasingly intense competitive environment. Therefore, banks constantly seek ways to enhance sustainable competitive advantages in order to maintain performance and best meet customer needs. This leads to the central role of the customer in the process of using banking services. Maintaining service quality at the highest level to meet satisfaction and thereby sustain customer loyalty has always been a difficult challenge that each bank must find ways to solve.

Service quality is the factor that customers care about when transacting with banks. Once customers receive good service quality, they become more satisfied. Therefore, bank managers always seek ways to improve service quality to increase customer satisfaction. Theoretically, researchers have demonstrated a positive relationship between service quality and customer satisfaction. The results of many previous studies have shown that when service quality is high, customers become more satisfied (Kant & Jaiswal, 2017; Kasiri et al., 2017).

When customers become satisfied with service quality, the next possibility is that they become more loyal to that service, which is manifested through continued usage of the service or positive word-of-mouth and recommending the service to others. Previous research results largely strongly support the positive relationship between satisfaction and loyalty (Ariff et al., 2013; Belás & Gabčová, 2016; Kant & Jaiswal, 2017; Kasiri et al., 2017). However, maintaining loyalty is not driven solely by customer satisfaction but may also involve other factors, such as service quality. Therefore, some previous studies have additionally examined the direct relationship between service quality and loyalty.

Although many studies have addressed the relationships among service quality, satisfaction, and customer loyalty (Ahmed Al-Maamari & Abdulrab, 2017; Akhtar et al., 2011; Amin, 2016; Belás & Gabčov, 2014; Belás & Gabčov, 2016; Bhat et al., 2018; Brunner et al., 2008), the results remain inconsistent. Most studies support a positive relationship between service quality and loyalty. However, this relationship is still inconsistent and debated; for example, Kant & Jaiswal (2017) did not find a relationship between service quality and customer loyalty.

In Vietnam, the banking sector is under increasing competitive pressure; improving service quality and satisfaction to strengthen loyalty has become a topic of interest for both managers and researchers. Therefore, this study was conducted to examine the relationships among service quality, satisfaction, and customer loyalty through the mediating role of satisfaction. The study's results will further reinforce the theoretical foundation and provide a basis for banking managers to design policies to enhance customer satisfaction and loyalty toward their organizations.

To achieve the above objective, the study establishes and builds a research model, then tests the model using structural equation modeling with AMOS software. Therefore, the paper is organized into different sections to meet that objective, including introduction, theoretical foundation, research methodology, results and discussion, and finally conclusions and managerial implications.

THEORETICAL BACKGROUND AND HYPOTHESES

Service quality and Customer satisfaction

A bank is an organization that conducts service business activities; therefore, the production and delivery of services occur simultaneously with direct contact with customers. Thus, building good relationships with customers is always an important issue for the organization. Precisely because of this direct contact with customers, customer satisfaction with the service is a core survival factor for the organization (Leninkumar, 2017). Many factors may determine customer satisfaction, but a core factor is the service quality that customers receive. Customer satisfaction during the use of banking services is understood as the customer's comparison between what they expect to receive and the actual outcome delivered to them when using the service (Herington & Weaven, 2009; Shanka, 2012). When customers use the services provided by a bank, if the services are accurate, timely, transparent, and friendly, customers will perceive high service quality because they feel respected and that their needs are fully met. Conversely, during transactions, if any shortcomings occur in the service delivery process—such as delays, transaction errors, or poor service attitudes—this can reduce customer satisfaction. Therefore, the service quality perceived by customers is an important factor in maintaining satisfaction.

Results of previous studies also support the positive relationship between the service quality perceived by customers and their level of satisfaction (Caceres & Paparoidamis, 2007; Chu et al., 2012; Khan & Fasih, 2014). Therefore, the study proposes the first hypothesis as follows:

Hypothesis H1: Service quality has a positive effect on customer satisfaction.

Service quality and Customer loyalty

The relationship between service quality and customer loyalty has been addressed by many studies. Generally, the higher the service quality, the more likely customers are to become loyal. In other words, when service quality is high, it not only increases customer satisfaction but also promotes customer loyalty (Shanka, 2012). Similarly, Shanka (2012) also emphasizes that, in the banking services field, increasing satisfaction and loyalty is not easy. When customers are loyal, they are more likely to repurchase or recommend to others, and both behaviors are strongly influenced by the service quality perceived by customers during usage.

When a bank consistently meets customers' needs—ensuring timeliness, maintaining friendly and clear communication, and demonstrating care for each customer—all of these can retain them in the long term. When customers experience a service and receive benefits that exceed their expectations, they not only continue to use the service but also tend to recommend the bank to others. Therefore, banks should avoid providing poor-quality services, because poor service quality can quickly erode trust and cause customers to switch to competitors. Thus, service quality is a core factor that helps banks build customer loyalty.

Although the results of previous studies are not entirely consistent, the majority of prior studies support a positive relationship between service quality and customer loyalty. For example, studies by Shanka (2012), Khan & Fasih (2014), and Kasiri et al. (2017). Therefore, the study proposes the following hypothesis:

Hypothesis H2: Service quality has a positive effect on customer loyalty.

Customer satisfaction and Customer loyalty

Customer satisfaction is recognized as a precursor to customer loyalty (Belas & Gabcova, 2016). Therefore, the relationship between satisfaction and customer loyalty is considered foundational in the service sector, particularly in banking. In the service context, satisfaction reflects the extent to which customers' actual experiences meet or exceed their initial expectations when using the service. When customers feel satisfied with service quality, they tend to maintain a long-term relationship with the bank.

Satisfaction not only directly affects the intention to reuse the service but also promotes positive behaviors such as recommending the bank to others. This contributes to creating a stable base of loyal customers, helping the bank reduce marketing costs and increase business efficiency (Leninkumar, 2017). Similarly, Kasiri et al. (2017) also confirm that customer satisfaction can drive customer loyalty in the service sector. In addition, satisfaction is also regarded as a mediating factor in the relationship between service quality and customer loyalty (Chu et al., 2012). Therefore, the study proposes the hypothesis:

Hypothesis H3: Satisfaction has a positive effect on customer loyalty.

METHODOLOGY

To test the proposed hypotheses and research model, this study collected data via a questionnaire administered to customers using services at commercial banks in Ho Chi Minh City. Using a convenience sampling method, the study collected and screened responses, and the final sample size used for analysis was 193 observations. Of these, males accounted for 32.1% and females 67.9%. The majority of respondents were aged 20–30, accounting for

88.1%, while the remaining age groups accounted for 11.9%. Those with a university degree accounted for 78.8% and postgraduates 21.2%.

The measures in this study include service quality, satisfaction, and loyalty scales, all referenced from previous studies. Specifically, the service quality scale is typically measured across multiple dimensions. However, this study approaches service quality as an overall quality construct comprising 4 items. The satisfaction and loyalty scales each consist of 3 items to measure overall customer satisfaction and loyalty. All items were adopted and adapted from Cronin et al. (2000), Brady et al. (2002), Dimitriadis (2006), Park et al. (2006), Martín-Consuegra et al. (2007), and Khan & Fasih (2014).

After the cleaned data were entered for analysis, reliability of the scales was tested using Cronbach's alpha, exploratory factor analysis (EFA) was performed using SPSS, confirmatory factor analysis (CFA) was conducted, and the structural equation model (SEM) was analyzed using AMOS. To ensure analysis standards, this study applied the criteria recommended by Hair et al. (2010). Specifically, factor loadings and Cronbach's alpha should be greater than 0.7 and the KMO statistic should be greater than 0.5 and less than 1. The fit indices for CFA and SEM include CFI>0.9, TLI>0.9, RMSEA<0.08 and CMIN/df<3. In addition, composite reliability (CR) and average variance extracted (AVE) were also used to assess the reliability and discriminant validity of the scales.

RESULTS AND DISCUSSION

The reliability analysis of the scales using Cronbach's alpha shows that all three scales meet the required reliability threshold of 0.7. Specifically, the 'Service Quality' scale has Cronbach's alpha = 0.870; the 'Satisfaction' scale has Cronbach's alpha = 0.927; and the 'Loyalty' scale has Cronbach's alpha = 0.886. The EFA yielded a KMO = 0.828 and an explained variance of 80%. Thus, these results qualify the data for proceeding to CFA and SEM analyses in the next step. The subsequent CFA indicates that all factor loadings are greater than 0.7, and fit indices such as CMIN/df=1.531<3, p<0.028, CFI=0.986>0.9, TLI=0.981>0.9 and RMSEA=0.053<0.08 all meet the thresholds suggested by Hair et al. (2010). Table 1 shows the CFA results and Cronbach's alpha coefficients.

Table 1: Results of CFA and Cronbach's Alpha Analysis

Variables	Items	Factor loadings	CR	AVE	Cronbach's Alpha
Service Quality (SQ)	SQ1	0.728	0.872	0.632	0.870
	SQ2	0.843			
	SQ3	0.759			
	SQ4	0.843			
Customer Satisfaction (CS)	CS1	0.883	0.928	0.812	0.927
	CS2	0.956			
	CS3	0.862			
Customer Loyalty (CL)	CL1	0.868	0.888	0.725	0.886
	CL2	0.885			
	CL3	0.799			

In addition, analysis of composite reliability and average variance extracted shows that all indices meet the required thresholds. Specifically, CR values are all greater than 0.7 and AVE values exceed 0.5, satisfying the minimum criteria recommended by Hair et al. (2010) (see Table 1 and Figure 1).

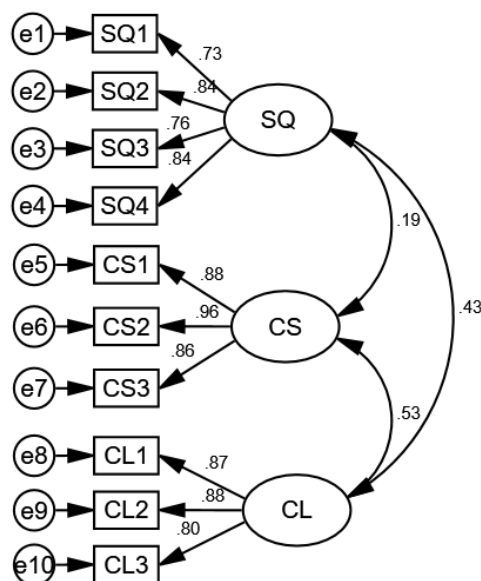


Figure 1: Results of Confirmatory Factor Analysis

Hypothesis Testing

The next step of the study tested the structural model and the research hypotheses. The results show that the SEM model fit indices all meet the standards proposed by Hair et al. (2010). Specifically, $CMIN/df=1.531 < 3$, $p < 0.028$, $CFI=0.986 > 0.9$, $TLI=0.981 > 0.9$ and $RMSEA=0.053 < 0.8$.

Testing the research hypotheses shows that all three hypotheses were accepted. First, the study proposed hypothesis H1 on the positive relationship between SQ and CS. The result for H1 is supported with a standardized beta of 0.188 and $Sig. < 0.05$. That is, 'Service Quality' has a positive effect on customers' 'Satisfaction' with banking services.

Similarly, hypothesis H2 proposing a positive relationship between SQ and CL is also accepted at the 5% significance level with a standardized beta of 0.338 and $Sig. < 0.05$. This indicates that the higher the bank's 'Service Quality', the more 'Satisfied' customers become with the services they use.

Hypothesis H3 proposing a positive relationship between CS and CL is also accepted at the 5% significance level with a standardized beta of 0.467 and $Sig. < 0.05$. This shows that when customer 'Satisfaction' increases, it promotes customer 'Loyalty' in the banking service sector.

Finally, the study tested the mediating role of 'Satisfaction' in the relationship between 'Service Quality' and 'Loyalty'. Bootstrap analysis with 5,000 replications indicates that CS plays a partial mediating role in the relationship between SQ and CL, with an indirect standardized beta of 0.088 at the 5% significance level (see Table 2).

Table 2: Results of Hypothesis Testing

Direct effect	β	P-value	Decision
SQ \rightarrow CS	0.188	0.018	Accepted (H1)
SQ \rightarrow CL	0.338	0.000	Accepted (H2)
CS \rightarrow CL	0.467	0.000	Accepted (H3)
SQ \rightarrow CS \rightarrow CL	0.088	0.025	

Thus, the SEM analysis results show that all hypotheses were accepted. Specifically, SQ has a positive effect on CS (H1 accepted) and directly affects CL (H2 accepted). Similarly, CS positively affects CL (H3 accepted) and CS plays a partial mediating role in the relationship between SQ and CL.

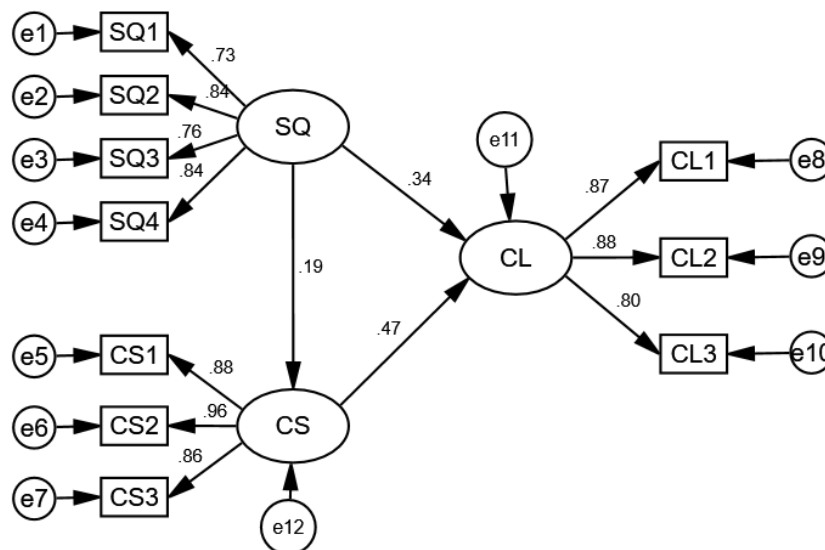


Figure 2: Results of Structural Equation Modeling

Discussion

The relationships among service quality, satisfaction, and loyalty in the service sector have been widely discussed, yet the results remain inconsistent and contested (Kasiri et al., 2017). Therefore, this study provides additional empirical evidence to further confirm the relationships among these variables in the banking service context. First, the study reconfirms the positive relationship between service quality and customer satisfaction, which has been found in previous studies such as Khan et al. (2014) and Kant & Jaiswal (2017). In the context of the banking sector in a developing country like Vietnam, service quality remains an important factor highly valued by customers because when customers receive good service quality, they become more satisfied. Although service quality manifests in many different aspects, this study approaches it as an overall quality construct to measure customers' general perceptions. Thus, when customers evaluate a service as high quality from an overall perspective, they will become more satisfied with that service.

The results also show that service quality not only affects satisfaction but also affects customer loyalty to a greater extent than satisfaction. This finding is consistent with previous studies such as Khan et al. (2014), which found a positive relationship between service quality and customer loyalty. This also emphasizes that service quality is an important factor that not only increases customer satisfaction but also promotes their loyalty through continued use of the service or recommending it to others. The analysis also strongly supports the relationship between satisfaction and customer loyalty. This relationship has been confirmed by many prior studies. Therefore, this study further affirms that in the banking service sector, satisfaction plays an important role in maintaining customer loyalty.

The analysis also found that customer satisfaction is the focal point of the service sector because it not only directly drives customer loyalty but also indirectly transmits service quality into loyalty. In other words, an increase in a bank's service quality not only directly promotes loyalty but also makes customers more satisfied, and satisfaction in turn acts as a bridging factor to retain customers or encourage them to recommend the service to others. This finding has been confirmed in several previous studies and is reaffirmed in this study within the banking service context.

CONCLUSION

Service quality, satisfaction, and loyalty have always been topics of interest to many stakeholders. Although the relationships among these variables and how to increase customer loyalty have been addressed by some studies (Caceres & Paparoidamis, 2007; Cameran et al., 2010; Flint et al., 2011; Ghotbabadi et al., 2015; Novokreshchenova et al., 2016), the results remain contentious. Therefore, this study was undertaken to further examine the relationships among factors such as service quality, satisfaction, and customer loyalty in the banking service sector within the context of a developing country like Vietnam. A structural equation model was used to test the model and research hypotheses.

The results show that service quality positively affects customer satisfaction and customer loyalty, and that satisfaction directly influences customer loyalty. In other words, service quality plays an important role in

increasing customer satisfaction and loyalty. In the banking service sector, customer satisfaction serves as a central core factor to drive loyalty because it not only has a direct effect but also functions as a bridge through which customers perceive service quality, thereby retaining customers and generating positive word-of-mouth. These findings provide important implications for bank managers: maintaining high service quality and maximizing customer satisfaction are the foundations for enhancing customer loyalty.

Although this study makes positive contributions, it also has certain limitations, such as the sample being selected using a convenience sampling method and the variables in the model being considered only within a limited scope, since loyalty can be influenced by many different factors. Therefore, future studies should address the limitations noted in this study.

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