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MULTIPLE MEDIATING EFFECTS ON THE QUALITY OF AND LOYALTY TO BANKING SERVICES

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ABSTRACT

This study aimed to determine the effects of banks' service quality on customer loyalty, perceived value, and corporate image, as well as identify the mediating effect of perceived value and corporate image between on service quality and customer loyalty. Primary data was collected through an online structured questionnaire and analyzed with structural equation modeling. The results revealed that service quality exerted a significant on all the other three variables. In addition, perceived value not only positively affected customer loyalty and corporate image but also mediated the effect of service quality on customer loyalty. The findings of the current study provide not only additional evidence of theoretical relevance but also the means with which managers can develop a sustainable customer-centric marketing strategy. Such a strategy will help banks to analyze customer loyalty in relation to overall service quality, which can in turn improve re-patronization, long-term customer relationships, and sustainable competitive advantages.

Contribution/Originality: This study confirms the long-lasting effect of service quality on customer loyalty both directly and indirectly via the mediating effects of perceived value and corporate image in the banking sector. It thus offers important recommendations for developing customer-centric services and implementing strategies to maintain and enhance customer loyalty. There are also potential implications for other service industries in a similar context.

1. INTRODUCTION

Rapid economic and trade growth drives financial institutions to increase their efforts in gaining a competitive advantage. However, due to changes in customer demand as well as technological advances, many banks are experiencing operational challenges: banks must not only respond to customers' preferences and provide convenient banking services but also adjust their operational strategies to negotiate current economic changes and complexities. Service quality is thus considered to be a key and innovative dimension in the banking sector, ensuring banks are able to fully satisfy all customers' expectations (Parasuraman, Zeithaml, & Berry, 1985); such a customer-centric relationship can also build customer loyalty. As all service industries, not just banking, are crucial in sustaining economic growth, it is vital to assess service quality, which is difficult due to the intangibility, heterogeneity, inseparability, and perishability services and the participation of customers during service delivery (Parasuraman et al., 1985).

As part of the economic and financial liberalization and deregulation in Bangladesh, a wide range of legal, policy, and institutional reforms were undertaken in the banking sector between 1990 and 1995. As of 2020, there are 60 scheduled Bangladeshi banks: 6 state-owned, 42 private 9 foreign, and 3 specialized (Bangladesh Bank, 2020). Consequently, customers can choose from a large number of alternative banks in a sector moving from a closed to an open market, adopting technological advancements, and reacting to customer demands. Thus, service quality is paramount in earning customer equity and loyalty; hence its inclusion in a bank's strategy and objectives enables it to differentiate itself from others and gain a competitive advantage.

In fact, numerous studies have proved that service quality is the principal factor in customer loyalty (Bakar, Clemes, & Bicknell, 2017; Sigit, 2018; Yilmaz, Ari, & Gürbüz, 2018; Zeithaml, Bitner, & Gremler, 2018), as well as a strategic tool for achieving excellence in service performance (Zeithaml et al., 2018) and acquiring a competitive advantage (Ladhari, Ladhari, & Morales, 2011). Ladhari et al. (2011) found that a 5% increase in customer retention led to a 25%–85% increase in profits. Furthermore, several studies have shown that service quality exerts a significant positive impact on both corporate image and perceived value (Bakar et al., 2017; Zameer, Tara, Kausar, & Mohsin, 2015), which in turn notably affect behavioral intentions, such as long-term relationships, word-of-mouth marketing, and re-patronization (Bakar et al., 2017; Lewis & Soureli, 2006; Nguyen & Leblanc, 1998). As a result, service quality indirectly affects behavioral intentions via customer satisfaction (Cronin, Brady, and Hult, 2000; Lewis & Soureli, 2006; Nguyen & Leblanc, 1998) as well as on customer satisfaction and loyalty through corporate image and perceived value (Cronin, Brady, and Hult, 2000; Lewis & Soureli, 2006; Ozkan, Süer, Keser, & Kocakoç, 2019). In addition, perceived value exerts a two-way mediating effect: between customer satisfaction to corporate image, and perceived quality to corporate image (Nguyen & Leblanc, 1998). In other words, service quality in the banking sector influences customer loyalty not only directly but also indirectly via psychometric variables. However, little research focuses on these issues, particularly on perceived value and corporate image as mediators in the relationship between service quality and customer loyalty in the banking sector, nor on that between customer loyalty and service quality, perceived value, or corporate image, nor between perceived value and corporate image. Service quality, though, is a complex concept, requiring an in-depth understanding to react to the rapid changes in customers' behavioral intentions, achieve successful long-term relationships, and improve financial performance.

Therefore, the current study aims to enhance knowledge about retail banking services by identifying the associations between service quality, customer loyalty, perceived value, and corporate image, especially the mediating effect of perceived value and corporate image between service quality and customer loyalty. The size of the effect of perceived value on corporate image in Bangladeshi retail banking is then determined by structural equation modeling.

In this paper, the literature review is presented first, along with the hypotheses and a brief outline of the variables in Section 2. The research methodology and empirical results are then provided in Sections 3 and 4, respectively, followed by the discussion in Section 5. Finally, Section 6 offers conclusions and recommendations, as well as future research suggestions.

2. LITERATURE REVIEW

2.1. Customer Loyalty

Oliver (1999) defined customer loyalty as a promise to repurchase or repatronize a preferred product or service, and noted that customers follow a decision-making process of cognition, affect, conation, and action to become loyal to a specific product or service, which strengthens the profitability of businesses. In this study, customer loyalty refers to the continued use of a certain bank's services by the customer over a long period: the greater their loyalty, the longer the customer will stay with the same bank. It has already been confirmed by previous researchers that marketing should be related to re-patronization and customer loyalty, which depends directly on service quality and satisfaction (Sigit, 2018; Yilmaz et al., 2018). Moreover, Darmawan (2017) has shown how customer loyalty in the retail banking sector is primarily influenced by corporate image, followed by service quality and customer satisfaction.

2.2. Service Quality

Scholars have now spent a considerable amount of time debating the concept of service quality, and after several decades, most define it as a comparative judgment of perceived expectations-actual service performance (Parasuraman et al., 1985); it is likely that this is positively associated with customer loyalty (Bakar et al., 2017; Hapsari et al., 2017; Yilmaz et al., 2018). Bakar et al. (2017) argued that service quality, although exerting no significant impact on behavioral intentions, is the prime determinant of customer satisfaction, followed by switching costs, corporate image, and perceived value. Wang (2010) also reports that service quality is a strong predictor of customer loyalty, while Sigit (2018) asserts it is an important influence on customer satisfaction, retention, and loyalty.

2.3. Perceived Value

Zeithaml et al. (2018) defined perceived value as a customer's overall assessment of perceived benefits and sacrifices, which plays a distinctive role in customer loyalty. Furthermore, they assert that perceived value can be based on low prices, quality, satisfaction of wants, and gains in return for sacrifices made. As well as being long-associated with customer loyalty (Lewis & Soureli, 2006), Bakar et al. (2017) stated that perceived value is significantly affected by service quality and greatly influences behavioral intentions and customer satisfaction. In addition, Nguyen and Leblanc (1998) asserted that perceived value depends greatly on service quality and customer satisfaction and exerts a significant impact on the corporate image of financial institutions.

Perceived value is also recognized as an important mediator variable in financial institutions, with Nguyen and Leblanc (1998) reporting that service quality extends perceived value to build the desired perceptions of corporate image, which is a common yardstick for measuring a bank's performance.

2.4. Corporate Image

Corporate image refers to the physical and behavioral characteristics of a business, such as the range of services offered, its name, interaction with its customers, and the organization's structure. Influenced by perceived value and service quality, it thus exerts a significant positive impact on customer loyalty as well as customer satisfaction (Darmawan, 2017; Marinkovic & Obradovic, 2015; Nguyen & Leblanc, 2001). Moreover, Ladhari et al. (2011) and Wang (2010) illustrated the positive relationship between corporate image and customer loyalty, while Oliver (1999) had earlier shown how corporate image, as well as perceived value, affected attitudes toward service quality. In addition, researchers found that, due to corporate image significantly and positively influencing customers' behavioral intentions and satisfaction, engagement, and loyalty (Bakar et al., 2017; Hapsari, Clemes, & Dean, 2017), they may remain loyal to their service provider that represents a certain image despite service quality.

2.5. Hypothesis Development

Based on the literature review, the current study assumes that service quality directly and positively influences perceived value, corporate image, and customer loyalty; therefore, the following hypotheses are proposed:

H1: Service quality exerts a positive influence on perceived value.

H2: Service quality exerts a positive influence on corporate image.

H3: Service quality exerts a positive influence on customer loyalty.

Likewise, as perceived value is assumed to directly and positively influence corporate image and customer loyalty, the following hypotheses are proposed:

H4: Perceived value exerts a positive influence on corporate image.

H5: Perceived value exerts a positive influence on customer loyalty.

In addition, it is assumed that corporate image is likely a positive determinant of customer loyalty and the following hypothesis is posited:

H6: Corporate image positively influences customer loyalty.

Finally, the current study also assumes that perceived value and corporate image not only act as mediators in the relationship between service quality and customer loyalty but also directly affect customer loyalty; thus, the following hypotheses are proposed:

H7: Perceived value has a mediating effect between service quality and customer loyalty.

H8: Corporate image has a mediating effect between service quality and customer loyalty.

The consequent research model is illustrated in Figure 1.

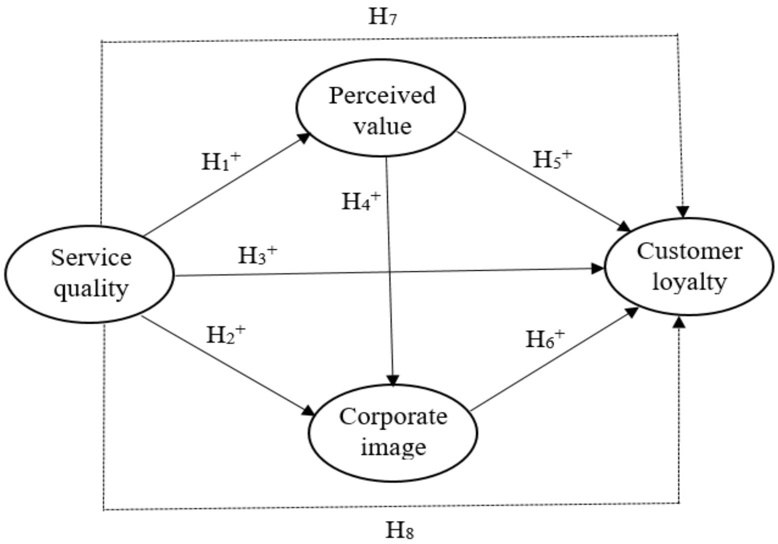

Figure-1. Conceptual model with hypotheses.

3. METHODOLOGY

Due to the lack of research funding creating time and cost constraints, convenience sampling was adopted and Google Docs Forms was used to run a question-based survey, which has become popular as a practical and reliable research tool; participation was entirely voluntary. The self-administered questionnaires were then disseminated online (e.g., via email, social networking sites) to 330 bank customers, along with a cover letter clarifying the study's purpose. Data was collected over a two-week period, followed by initial data screening and successive data cleaning, 262 valid samples were extracted for analysis. Finally, exploratory factor analysis (EFA), confirmatory factor analysis (CFA), and structural equation modeling (SEM) were undertaken using SPSS® Statistics and Amos 24.

The demographic profile of the participants is presented in Table 1. There was a bias toward men (79%) compared with women (21%), while the majority of participants were either 25–35 (57%) or 36–45 (30%) years of age. These participants were fairly equally distributed as customers of public (51%) and private sector (49%) banks, although the majority were conventional banks (89%) compared to Islamic banks (11%).

Table-1. Demographic profile (sample size = 262).

Measures	Items	Frequency	Percentage (%)
Gender	Male	208	79
	Female	54	21
Bank type	Governmental	134	51
	Non-governmental	128	49
Banking system	Traditional	233	89
	Islamic	29	11

The measurement instrument for this study adopted four variables with which to test the eight hypotheses and was based on and further developed from those used by previous studies to improve reliability and validity. The adapted measurement instrument, and associated sources, is shown in Table 2.

Table-2. Measurement instrument.

Variables and measures	Source
Service quality	Lewis and Soureli (2006); Sigit (2018).
The bank has up-to-date facilities and equipment. The bank gives me individual attention (deleted). The bank's employees are willing to help and provide prompt service. The bank's employees are knowledgeable and kind. The bank's employees are able to perform the promised service reliably and accurately (deleted). The bank is trustworthy, reliable, and honest.	
Perceived value	Nguyen and Leblanc (1998); Lewis and Soureli (2006); Hapsari et al. (2017).
The bank offers the best deposit interest rates. The bank offers the best loan interest rates (deleted). I believe that the bank has the customer's best interests at heart (deleted). Overall, I highly the value of the bank's services. Overall, I am satisfied with the services provided by the bank. Overall, the bank offers good value for money (deleted).	
Corporate image	Lewis and Soureli (2006); Hapsari et al. (2017).
The bank fulfills the promises it makes to customers. The bank has a good reputation. The bank has a better image than that of its competitors. The bank is contributing to society (deleted). The bank operates in an ethical manner (deleted). My friends think that the bank has a good image.	
Customer loyalty	Lewis and Soureli (2006); Yilmaz et al. (2018)
I consider my bank as my first choice for future purchases. I would recommend my bank to friends/family/others. I want to remain a customer with my bank. I intend to do more business with my bank in the next few years (deleted). I prefer my bank to others. Despite some minor issues, I will continue to prefer my bank's services (deleted).	

To achieve a higher reliability, some items were removed from the final questionnaire: two items each from service quality, corporate image, and customer loyalty, and three from perceived value. The participants then scored each of the 24 remaining items, 6 for each variable, on a Likert scale ranging from strongly disagree (1) to strongly agree (7).

However, as all the data was self-reported for both independent and dependent variables by the same sample and collected over a single time frame, common method variance (CMV) became an issue. A test recommended by Podsakoff, MacKenzie, Lee, and Podsakoff (2003) was therefore conducted to detect any CMV, which built on the Harman single-factor test: if all the items are measured by a single factor that represents the majority of the variance, then CMV is a possibility. In this study, the eigenvalues for the four underlying factors all exceeded 1, while the first factor explained 31.55% of the variance (see Table 3), which reveals no CMV issue (Podsakoff et al., 2003).

4. RESULTS

4.1. Exploratory Factor Analysis

EFA with varimax rotation was conducted to determine the interrelationships between the variables. Initially, all 24 items were included in the analysis, but once a simple structure had been produced following rotation, one perceived value item (pv_4) was removed when very low loadings were observed. The EFA was repeated for the remaining 15 items with a Kaiser–Meyer–Olkin (KMO) sampling adequacy test, which, with a result 0.951 exceeded the critical value, confirmed this study's sample was adequate (Kaiser, 1974). Bartlett's Test of Sphericity (Bartlett, 1954) was also performed and confirmed the data was suitable for data reduction at a significance of $p < 0.001$. Table 3 summarizes the EFA results and it can be seen that with Cronbach's alpha values of 0.90 for customer loyalty, 0.86 for service quality, 0.86 for perceived value, and 0.88 for corporate image, not only exceeding the critical value threshold of 0.70 (Hair, Black, Babin, & Anderson, 2010), both the reliability and validity of the data are confirmed.

Table-3. Exploratory factor analysis.

Factors	Customer loyalty	Perceived value	Corporate image	Service quality
cl_1	0.764	0.282	0.320	0.254
cl_2	0.711	0.391	0.257	0.150
cl_3	0.670	0.262	0.382	0.322
cl_4	0.618	0.185	0.361	0.491
pv_1	0.060	0.741	0.340	0.309
pv_2	0.366	0.734	0.315	0.164
pv_3	0.433	0.707	0.261	0.169
ci_1	0.311	0.243	0.786	0.256
ci_2	0.281	0.290	0.750	0.239
ci_3	0.347	0.416	0.600	0.314
ci_4	0.293	0.382	0.544	0.444
sq_1	0.197	0.178	0.230	0.838
sq_2	0.257	0.361	0.237	0.717
sq_3	0.426	0.224	0.082	0.607
sq_4	0.463	0.122	0.390	0.521
Variance explained	31.55%	16.23%	12.82%	11.22%
Cronbach's alpha	0.90	0.86	0.88	0.86

4.2. Confirmatory Factor Analysis

CFA was undertaken to corroborate the reliability, as well as convergent and discriminant validity, of the data. The CFA results presented in Table 4 show that all the measurement items were significantly loaded for each variable, ranging from 0.71 to 0.88, revealing adequate interrelationships between the variables (Fornell & Larcker, 1981).

In addition, the average variance extracted (AVE) and composite reliability (CR) for each variable exceed the acceptable thresholds—from 0.58–0.69 for AVE and from 0.84–0.89 for CR—which represents good convergent validity (Fornell & Larcker, 1981; Hair et al., 2010). Furthermore, the goodness-of-fit indices show that the model is a good fit to the data, as well as verifying the reliability (Hair et al., 2010).

Discriminant validity was determined by calculating whether the AVE of a variable was greater than its squared correlation with any other variable, which was established. Multicollinearity was also evaluated by the reciprocals variance inflation factor (VIF) (2.50–2.83) (Hair et al., 2010)and tolerance (0.30–0.39), both of which proved to be acceptable levels. All the results are presented in Table 5.

Table-4. Confirmatory factor analysis.

Variables	Measures	Standardized factor loadings	Average variance extracted (AVE)	Composite reliability (CR)
Customer loyalty			0.68	0.89
	cl_1	0.86		
	cl_2	0.84		
	cl_3	0.80		
	cl_4	0.82		
Perceived value			0.69	0.87
	pv_1	0.88		
	pv_2	0.88		
	pv_3	0.74		
Corporate image			0.65	0.88
	ci_1	0.88		
	ci_2	0.85		
	ci_3	0.71		
	ci_4	0.78		
Service quality			0.58	0.84
	sq_1	0.87		
	sq_2	0.76		
	sq_3	0.74		
	sq_4	0.68		
Goodness-of-fit indices: x^2/d.f. = 1.98, RMSEA = 0.061, AGFI = 0.87, CFI = 0.97, NFI = 0.95				

Notes: x^2, chi-squared; d.f., degrees of freedom; RMSEA, root mean square error of approximation; ADFI, adjusted goodness of fit index; CFI, comparative fit index; NFI, normed fit index.

Table-5. Discriminant validity results.

Results	Mean	Std. deviation	Service quality	Perceived value	Corporate image	Customer loyalty	Tolerance	VIF
Service quality	3.25	0.84	**0.76**				0.38	2.58
Perceived value	3.43	0.89	0.68	**0.83**			0.39	2.50
Corporate image	3.42	0.98	0.73	0.76	**0.80**		0.30	2.83
Customer loyalty	3.33	0.97	0.71	0.74	0.77	**0.82**		

Note: Bold diagonal numbers are the square roots of AVE.

4.3. Structural Equation Model

SEM was subsequently conducted to examine the hypothesized paths of effect. SEM identifies the magnitude and direction of direct effects by providing the positive/negative estimates of the path and standardized coefficient values. Table 6 show that all but one of the direct paths of effect are significant: service quality exerts a direct, positive impact on perceived value, corporate image, and customer loyalty at a significance of 1%), supporting *H1*, *H2*, and *H3*; perceived value exerts a direct, positive impact on corporate image also at a significance of 1%) while on customer loyalty at a significance of 5%), both supporting *H4* and *H5*; the direct of corporate image on customer loyalty, though, is not only negative but also insignificant, rejecting *H6*. In addition, SEM demonstrates that the model is a goodness of fit, according to all the indices shown in Table 6.

Table-6. Structural equation model results.

Hypotheses	Paths	Standardized estimate (*t*-value)	*p* value	Decision
H1	service quality → perceived value	0.83 (13.98)	***	accept
H2	service quality → corporate image	0.93 (16.85)	***	accept
H3	service quality → customer loyalty	0.94 (2.62)	***	accept
H4	perceived value → corporate image	0.33 (4.72)	***	accept
H5	perceived value → customer loyalty	0.21 (3.49)	**	accept
H6	corporate image → customer loyalty	-0.21 (-0.65)	n.s.	reject
Variance explained	perceived value	0.69		
	corporate image	0.91		
	customer loyalty	0.86		
Model fit indices: x^2/d.f. = 2.18, RMSEA = 0.067, AGFI = 0.88, CFI = 0.96, NFI = 0.94				

Notes: ***, $p < 0.001$; **, $p < 0.05$; n.s., not significant.

4.4. Mediation Model Analysis

Finally, the model was bootstrapped according to the statistical method described by Baron and Kenny (1986) to test the mediating effects of perceived value and corporate image between service quality and customer loyalty. Amos 24 was used to bootstrap all 262 samples 5000 times. As can be seen from the results shown in Table 7, neither the bias-corrected nor percentile methods include zero in the 95% confidence interval (CI) for the mediating effect of perceived value, which confirms *H7* that service quality significantly but indirectly affects customer loyalty. However, *H8* is rejected, as zero is included in the CI for the mediating effect of corporate image; thus, no indirect effect exists between service quality and customer loyalty due to corporate image.

Table-7. Bootstrapping results.

	Variables	Estimate	Std. error	z-score	Bootstrapping			
					Bias-corrected		Percentile	
					95% CI		95% CI	
	Indirect effect				lower	upper	lower	upper
H7	Perceived value	0.25***	0.07	3.57	0.12	0.39	0.10	0.40
H8	Corporate image	$0.24^{n.s.}$	0.19	1.26	-0.10	0.58	-0.12	0.56

5. DISCUSSION

Based on these empirical results, the structural model developed for this study is appropriate: 69%, 91%, and 86% of the variance in perceived value, corporate image and customer loyalty are explained by service quality (see Table 6).

With regard to direct effects, service quality significant and positively affects perceived value, corporate image, and customer loyalty, which corroborates existing studies (e.g., Bakar et al., 2017; Sigit, 2018; Wang, 2010; Yilmaz et al., 2018) that reported service quality, perceived value, and corporate image all affected customer loyalty significantly and positively in the service sector. This implies that the better the services a customer receives from their bank, and the less inconvenience—or at least an acceptable level of inconvenience—suffered, and the more positive will be their response to and the longer they will remain a customer with that bank. In addition, perceived value exerts a significant and positive impact on corporate image and customer loyalty, confirming the findings of Bakar et al. (2017) and Nguyen and Leblanc (1998). This suggests that customers perceive no differentiation in the value for money of core services or products offered between their own bank and its competitors. However, the effect of corporate image on customer loyalty is insignificant and negative, contrary to other studies (Ladhari et al., 2011; Wang, 2010). This might occur when customers perceive they are receiving the consistent and quality service they expect; thus, the bank's image became less important.

Concerning mediating or indirect effects, perceived value is a strong mediator between service quality and customer loyalty, supporting the findings of Ozkan et al. (2019). It can be inferred from this that once a bank customers believe they are receiving reasonable value for money in comparison with other banks, they become attached to and will remain with their service provider. Moreover, customers build long-term relationships with their bank to achieve their financial goals. On the other hand, the mediating effect of corporate image is not supported, possibly due to Bangladeshi banks providing similar services offering reasonable interest rates, which are controlled by the central bank, raising the importance of service quality. It is also likely that customers focus more on value for money alongside service quality in evaluating their satisfaction with their bank and whether they will continue to use the services offered.

6. CONCLUSION

The contribution of the current study to the existing body of literature is in highlighting the relationships between service quality, perceived value, corporate image, and customer loyalty in the banking sector. In particular, its originality is in revealing the mediating effects between these variables in the Bangladeshi context. Moreover, the findings confirm those of earlier studies on customer loyalty: several causal factors, as well as important mediators, lead to long-term customer loyalty.

From a managerial perspective, the current study raises significant implications for banks in terms of enhancing customer loyalty. First, since service quality is a principal causal factor of customer loyalty, managers should focus on achieving a high-quality service that would in turn lead to a greater competitive advantage. Offering innovative services, alternative options for service delivery, easy and quick access to relevant information should thus be the core attributes to improve customer value, as well as corporate image, resulting in customer loyalty. Second, although the current study found corporate image exerts no significant impact, it is still crucial in a highly competitive market. Therefore, banks should implement effective strategies that standardize the pricing of services, which should be competitive relative to the rest of the banking sector. In addition, perceived value should be given particular consideration when building an institutional reputation to minimize switching intentions. Third, the manager should take the importance of the mediating effect of perceived value into account and offer optimal added value by reducing costs and providing more benefits to strengthen customers' perceptions, which can improve long-term relationships.

Nevertheless, there are few limitations that need to be noted. First, since the current study examined only service quality, perceived value, and corporate image in relation to customer loyalty, it is advisable that future research explores other important variables closely connected to customer loyalty. Second, although this study measures overall service quality, complying with the guidelines of Lewis and Soureli (2006) and Wang (2010), service quality is a complex and crucial factor; thus, future researchers might adopt a theory-based approach. Third, it is suggested that future research validates the relationships identified in the current study in a more diverse or transnational context.

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