

## Relationships among Customers' Perceived Service Quality, Satisfaction and Loyalty in the Retail Banking Sector of Pakistan

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**Abstract:** The main purpose of this study is to determine the level of satisfaction from the existing service quality in the retail banking sector of Pakistan and to investigate mediating role of customer satisfaction in determining the customer loyalty from prevailing service quality. So far, a limited study has been conducted in retail banking sector of Pakistan to understand the impact of customers' perceived service quality on customer loyalty via customer satisfaction. Literature was reviewed in order to comprehend what makes service quality, customer satisfaction and customer loyalty and to identify nature of relationship between them. Total of 180 responses were received from banking customers having active accounts in different banks in six cities in the area of Northern Punjab of Pakistan. Correlation matrix revealed significant positive relationship between all attributes of service quality, customer satisfaction and customer loyalty in retail banking sector in Pakistan. Regression analysis demonstrated customer satisfaction *fully mediates* the relationship between reliability and customer loyalty as well as assurance and customer loyalty, *partially mediates* empathy and customer loyalty, while *no mediation* found between tangibility and customer loyalty as well as between responsiveness and customer loyalty. Tangibility, however, showed a direct impact on customer loyalty. The bank managers in Pakistan must be vigilant about providing service quality with a special emphasis on reliability, assurance and empathy which are antecedents of customer satisfaction that in turn mediates the impact of these antecedents towards customer loyalty. Furthermore, bank managers must be watchful about provision of service quality in terms of tangibility which has a direct influence on customer loyalty.

**Key words:** Service Quality • Customer Satisfaction • Customer Loyalty • Retail Banking

### INTRODUCTION

The role of banking sector in an economy can't be ignored. We are in the twenty first century where much advancement have been observed either it is the area of information technology, mobile technology or internet and communication technology which has directly affected and flourished the banking sector. Today, online banking, internet banking and mobile banking have much attraction for banking customers which has offered the boundaryless environment for its customers to perform their transactions. The banking sector of Pakistan has witnessed radical changes over a period of 62 years since its inception [1]. Particularly since the decade of 1990s, privatization, technological updates, rapid growth

potentials and stiff competition among banks have all brought banks in Pakistan to bother about the issues of customer satisfaction and customer loyalty more vigilantly than in the past because the customers in Pakistan are in a bargaining position and can switch over banks within minutes. Such a dominant role of customers has induced banks in Pakistan to realize that 'Nothing breeds customer loyalty and satisfaction more than quality customer service'. Stanley Marcus once remarked to a group of bankers, "The dollar bills the customer gets from the tellers in four banks are the same. What different are the tellers." What, however, makes the tellers different? Quality has received much attention, but many service firms continue to have trouble delivering, even defining it [2]. Since the last two decades or so, the

researchers have focused service quality in the retail banking sector [3-10]. Service quality is an antecedent and determinant of customer satisfaction. Customer satisfaction has got maximum importance as an outcome of marketing activity [11, 12, 13]. In the competitive banking industry, customer satisfaction is considered as the essence of success [14]. Previous studies used tangibility, reliability, competence and conflict handling as the main construct of service quality dimensions and showed positive relationship between the three constructs of service quality, customer satisfaction and customer loyalty in retail banking in Pakistan [15]. However, this study used SERVQUAL model [16] comprising five dimension of service quality to study mediating role of customer satisfaction between SERVQUAL dimensions such as tangibility, reliability, responsiveness, assurance and empathy and customer loyalty. The objectives of this study are threefold: One is to recognize the intensity of each dimension of service quality in determining customer satisfaction in the retail banking sector of Pakistan. Second is to recognize the mediating role of customer satisfaction between service quality attributes and customer loyalty. Third is to recognize important implications for bank managers so that they can attract and retain potential customers. The scope of this study is limited only to retail banks in Pakistan as data was obtained from banks operating in six cities of Southern Punjab of Pakistan. Two basic frameworks will be drawn up. One is SERVQUAL Model [16] in relation to Service Quality and the other is the mediation Model presented by Caruana (2000) in relation to linkage between the constructs of service quality, customer satisfaction and customer loyalty [17].

## Literature Review

**Service and Service Quality:** Service is defined by Kotler and Armstrong [18] as “an activity, benefit, or satisfaction offered for sale that is essentially intangible and does not result in the ownership of anything”. Services are different from products in that services constitute processes rather than things. So a service firm has only interactive processes rather than products [19]. Also there are two different processes for physical goods such as production process and consumption process while services have just one process i.e. consumption process in which a service is gradually produced as well as consumed [19]. Service concept is the starting point for making decisions about the quality generating resources

[19, 18]. Kotler and Armstrong [18] described the following features of a service: (1) Intangibility (i.e. services cannot be tasted, seen, heard, smelled, felt) (2) Inseparability (concurrent production and consumption) (3) Variability (Heterogeneity – service quality depends on who provides service, when, where and how) and (4) Perishability (no storage for later use or sale).

Now the question is how the customers perceive what makes service process a satisfying one in the eyes of the customers. The answer is provided by SERVQUAL model presented by Parasuraman *et al.* [2] which describes five determinants of service quality in terms of tangibility, reliability, responsiveness, assurance and empathy. In product marketing, product quality often depends little on how the product is obtained. But in services marketing, service quality depends on both the service deliverer and the quality of delivery. Service marketers, therefore, have to be master in interactive marketing skills [18].

In a competitive business world, service quality is considered as a key factor for success of the organizations [14]. Moreover, it is also considered as an essential determinant that allows an organization to differentiate from other organizations. It helps an organization to gain sustainable competitive advantage. Service Quality has been found to be one of the most important dimensions of Customer Satisfaction [20].

**Service Quality Model:** SERVQUAL model that has been presented by Parasuraman [2] has faced strong criticism [21, 22, 23, 24, 5]. However, it is still useful instrument to measure service quality and many researchers have practiced it in their researches [25-36]. This study also followed the same model in retail banking as Parasuraman [2] suggested that SERVQUAL model is applicable in any service industry after minor modification for suitability of the industry.

**Customer Satisfaction:** Consumers perceive service quality on the basis of their expectations and actual experiences [37]. Kotler and Armstrong [18] have defined customer satisfaction as “the extent to which a product’s perceived performance matches a buyer’s expectations”. Oliver [12] Mentions three positions as negative disconfirmation when customers are highly dissatisfied, zero disconfirmation when performance matches expectations and positive disconfirmation when customers are highly satisfied.

**Customer Satisfaction in Retail Banking:** Zaim *et al.* [38] found that tangibility, reliability and empathy are important factor for customer satisfaction whereas responsiveness and assurance are found to be important factor [39]. On the other hand, tangibles are not related to customer satisfaction [40], whereas, Ahmed *et al.* [41] found that empathy has negatively relation with customer satisfaction. Researchers have identified importance of different determinants of customer satisfaction in the retail banking sector. For example, Arasli *et al.* [27] are of the view that reliability dimension of SERVQUAL has the highest impact on customer satisfaction in Greek Cypriot banking industry, whereas, Chaniotakis and Lymperopoulos [42] found no relation of reliability with customer satisfaction. However, competitive interest rate has been found as the key determinant of customer satisfaction in retail banking sector [43]. It is also found that competitiveness and convenience of the banks are also the two important determinants of customer satisfaction while others found no such significance among gender, age or income group [44].

**Relationship Between Service Quality and Customer Satisfaction:** The major antecedent of customer satisfaction is the service quality [45]. Higher customer satisfaction and consequent increased customer loyalty is the outcome of high quality of service [46]. There is positive relation between the automated service quality in banking and the level of customer satisfaction [47].

**Customer Loyalty:** In today business environment, companies are focusing on customer loyalty that is why they believe in customer relationship management. The aim of customer relationship management is to create not only satisfied customer but also the loyal customer [18] who in turn not only practices repeated purchases but also spreads a favorable word of mouth. Most of the studies showed that higher levels of customer satisfaction lead to greater customer loyalty in terms of brand loyalty, vendor loyalty and store loyalty [48, 49, 50]. Brand loyalty was attached to tangible goods in early days [48, 49]. Brand loyalty has been defined as “the proportion of purchases of a household devoted to the brand it purchased most often” [48]. Then the concept was broadened to store loyalty [48]. Similarly, the concept of vendor loyalty was introduced. But little attention was paid to customer loyalty of services [50].

**Interrelationships Between Service Quality, Customer Satisfaction and Customer Loyalty:** Service quality has direct and indirect relation with customer loyalty through customer satisfaction [17]. The interrelationships of service quality attributes, customer satisfaction and customer loyalty in retail banking sector in Bangladesh proves mediating role of customer satisfaction between service quality and customer loyalty [14]. In another study [45], a mediating role is performed by the customer satisfaction between service quality and customer loyalty. The results confirmed that higher level of customer satisfaction leads to greater customer loyalty. Loyal customers not only make repeated purchase but also become “customer evangelists” who spread the word about their good experiences to others. Those companies interested in loyal customers, exceptional value and service become part of their overall company culture [18].

**Hypotheses Development:** On the basis of above literature, this study draws the hypotheses as follows:

**H1:** Overall service quality significantly affects customer satisfaction.

**H2:** Tangibility significantly affects customer satisfaction.

**H3:** Reliability significantly affects customer satisfaction.

**H4:** Responsiveness significantly affects customer satisfaction.

**H5:** Empathy significantly affects customer satisfaction.

**H6:** Assurance significantly affects customer satisfaction.

**H7:** Service Quality attributes-tangibility, reliability, responsiveness, empathy and assurance- e a c h significantly affects Customer Loyalty though customer satisfaction.

**H8:** Customer satisfaction significantly affects customer loyalty.

**H9:** Service Quality directly affects customer loyalty.

**Research Framework:** On the basis of the hypotheses, research framework has been shown in Figure 1.

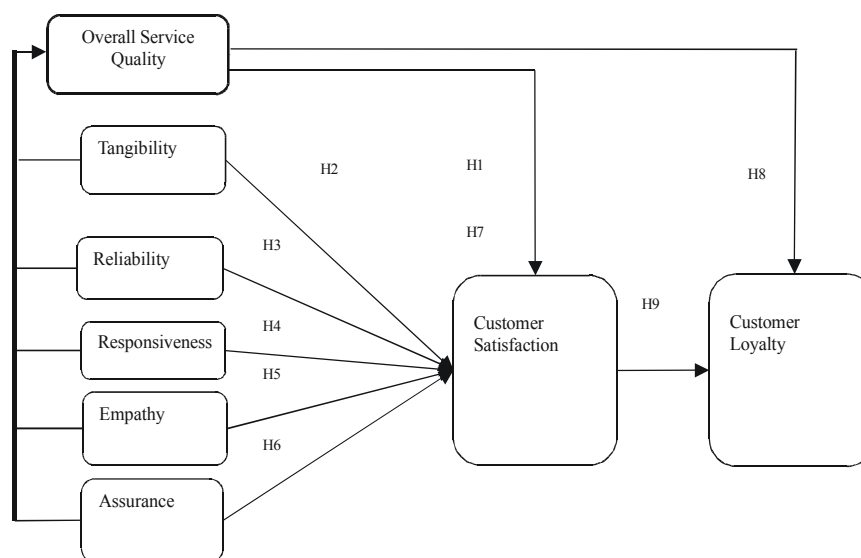


Fig. 1: Research Framework

## MATERIALS AND METHODS

**Instrument Development and Scales Reliability:** The scales that are used in this study measuring service quality, customer satisfaction and loyalty have been adopted from earlier studies. The service quality attributes are based on SERVQUAL model [2]. The service quality attributes consists of five dimensions: tangibility, reliability, responsiveness, assurance and empathy. Customer satisfaction was measured using single item scale adapted from previous studies [51, 44, 52]. Customer loyalty items consist of five items and are based on Caruana's study [53]. A 5-point likert scale was used for service quality attributes with end anchors 1 for "strongly disagree" to 5 for "strongly agree". Customer satisfaction was measured with five point scale with end anchors 1 for "unsatisfactory" to 5 for "very satisfactory". Customer loyalty was also measured with five-point likert scale with end anchors as 1 for "not at all likely" and 5 for "extremely likely". Cronbach's alpha values were calculated to check the reliability of the scales and are depicted in Table 2. The overall reliability of service quality scale was found to be .878 as compared with the original scale's reliability ranging from .87 to .90 in four service sectors. This indicates that the measures are reliable and internally consistent. The reliability of each dimension of service quality was also measured which were: tangibility (.739), reliability (.738), responsiveness (.628), assurance (.74) and empathy (.765). The scale for customer loyalty showed high reliability (.902) as compared with the

original scale 0.95. This shows high internal consistency. Hence the scale items are reliable and internally consistent.

**Sample and Data Collection:** A convenient sampling technique was practiced and questionnaires were distributed among those bank customers who have active bank account in the area of District of Multan, Pakistan. A total of 250 questionnaires were distributed to different banking customers operating in the region out of which 180 valid responses were received making a response rate of 72%.

## RESULTS

**Demographics of the Respondents:** As per Table 1, out of a total of 180 respondents, 133 were males and 47 were females. This shows 73.89% and 26.11% for males and females respectively. Out of this gender distribution, 68.89% were married and 31.11% were single. In terms of age, 68.33% of the respondents belong to age range of 21-30 and 16.11 % belong to 31-40 while 11.67% were below 20 years. 13.33% of the respondents fall in qualification category of under graduates, 38.33% were graduates and 48.34% were post graduates. Out of 180 respondents, there were 31.67% of the respondents were related to business activities, 45.56% were job holders and 15% of the respondents were students while 7.78% of the respondents belong to others categories such as farmers or house wives. The responses of the customers showed

Table 1: Demographics of respondents

Characteristics	Frequency	Percentage
<i>GENDER</i>		
Male	133	73.89
Female	47	26.11
<i>Marital Status</i>		
Married	124	68.89
Single	56	31.11
<i>AGE (Years)</i>		
Under 20	21	11.67
21-30	123	68.33
31-40	29	16.11
Above 40	7	3.89
<i>EDUCATION</i>		
Under Graduate	24	13.33
Graduate	69	38.33
Post Graduate	87	48.34
<i>Income Level</i>		
Below 15000	26	14.44
15001-20000	24	13.33
20001-25000	75	41.67
Above 25000	55	30.56
<i>Type of Account</i>		
Current	137	76.11
Saving	43	23.89
<i>Profession</i>		
Business	57	31.67
Employees	82	45.55
Student	27	15.0
Others	14	7.78

they came from various categories of banks operating in the district of Multan. 76.11% of the respondents had their current accounts while 21.67% had their saving accounts that have different income categories like 14.44% of the respondents fall in income slab of below Rs.15000, 13.33% of the customers fall in the income slab of Rs.15001 - 20000, 41.67% fall in the income slab of Rs. 20001 - 25000 while 30.56% of the respondents fall in the income slab of above Rs.25000.

**Descriptive and Correlation Analysis:** It reveals from the Table 2 that overall service quality has mean score of 3.45 indicating that on average customers have rate the bank service quality above average which means overall the service quality was good. Customer Satisfaction has a mean score of 3.53 which indicates customers are satisfied with the service quality provided by the bank and the customer loyalty has a mean score of 3.42 which means customers are loyal with their banks.

A correlation analysis has also been performed to check the relationships between all variables. The results are shown in Table 2 which indicates all the five

dimensions of service quality as well as customer satisfaction and customer loyalty have significant positive relationship between each other.

**Regression Analysis:** To test the hypotheses, a regression analysis has been performed. To test our first hypothesis (H1), customer satisfaction has been regressed by overall service quality and found that customer satisfaction is highly dependent on service quality ( $\beta = .717$ ,  $p < 0.05$ ) as shown in Table 3.

To test hypotheses H2 to H6, customer satisfaction has been regressed by each of the five dimensions of service quality as shown in step-1 of Table 4. It is evident from the table that reliability, assurance and empathy significantly affect customer satisfaction as each one has p value less than 0.05 while tangibility and responsiveness do not have significant effect on customer satisfaction ( $p > 0.05$ ). Hence hypotheses H3, H5 and H6 are confirmed but H2 and H4 are not supported. To test hypothesis H7 i.e. the mediation effect of customer satisfaction between service quality attributes and customer loyalty, this study followed the procedure of Baron and Kenny [54]. In first step, customer satisfaction has been regressed by all five dimensions of service quality. In step 2, customer loyalty has been regressed by all five dimensions of service quality. In last step, this study regressed customer loyalty by all the five dimensions of service quality along with customer satisfaction. The results of each step are shown in Table 4 and discussed as follows:

In step 1 of Table 4, the model's adjusted  $R^2$  is .525 depicting that the variations in customer satisfaction has explained up to 52.5% through variation in independent variables. It is shown from the table that reliability, assurance and empathy have significant affect on customer satisfaction ( $p < 0.05$ ). On the other hand, tangibility and responsiveness both have insignificant effect on customer satisfaction ( $p > 0.05$ ). In second step, the impact of independent variables (Tangibility, Reliability, Responsiveness, assurance and empathy) has been studied on dependent variable i.e. the customer loyalty. In this model, adjusted  $R^2$  is .612 indicating that the 61.2% variations in customer loyalty have been observed through variation in independent variables. Value of regression coefficient between tangibility and customer loyalty is significant ( $\beta = .184$ ,  $p < .05$ ). Similarly, regression coefficient between empathy and customer loyalty is significant ( $\beta = .529$ ,  $p < .05$ ). While the relationships of other attributes of service quality i.e. reliability, responsiveness and assurance is insignificant

Table 2: Correlation Statistics

Variables	Mean	SD	(T)	(RL)	(RS)	(A)	(E)	(OSQ)	(CS)	(L)
Tangibility (T)	3.48	.809	(.739)							
Reliability (RL)	3.40	.825	.707**	(.738)						
Responsiveness (RS)	3.43	.828	.604**	.597**	(.628)					
Assurance (A)	3.58	.863	.513**	.593**	.531**	(.740)				
Empathy (E)	3.36	.909	.614**	.661**	.503**	.597**	(.765)			
Overall service quality (OSQ)	3.45	.695	.833**	.865**	.784**	.791**	.830**	(.878)		
Customer Satisfaction (CS)	3.53	1.023	.585**	.637**	.471**	.595**	.649**	0.717**	-	
Loyalty (L)	3.42	1.033	.619**	.630**	.468**	.552**	.757**	0.741**	.666**	(.902)

\*\* Correlation is significant at the 0.01 level (2-tailed).

Items in Parenthesis are reliability coefficients

Table 3: Regression analysis of overall service quality and customer satisfaction

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Adj R <sup>2</sup>	F
	B	Std. Error	Beta					
1 (Constant)	-.114	.270	.717		-.420	.675	.512	188.642
Overall Service Quality	1.055	.077			13.735	.000		

Dependent Variable: Customer Satisfaction

Table 4: Regression analysis and testing of mediating role of customer satisfaction

Step	Dependent Variable	Independent Variable	Beta	t. value	Sig.	Adj R <sup>2</sup>	F	Result
1	Customer satisfaction	Tangibility	.147	1.854	.065	.525	40.641	
		Reliability	.215	2.568	.011			
		Responsiveness	-.010	-.150	.881			
		Assurance	.227	3.249	.001			
		Empathy	.286	3.811	.000			
2	Customer Loyalty	Tangibility	.184	2.579	.011	.612	57.378	
		Reliability	.110	1.453	.148			
		Responsiveness	-.022	-.349	.728			
		Assurance	.088	1.396	.165			
		Empathy	.529	7.786	.000			
3	Customer Loyalty	Tangibility	.152	2.163	.032	.633	52.463	No mediation
		Reliability	.062	.829	.408			Full mediation
		Responsiveness	-.020	-.321	.749			No mediation
		Assurance	.038	.595	.552			Full mediation
		Empathy	.465	6.768	.000			Partial Mediation
		Customer satisfaction	.223	3.340	.001			

Table 5: Regression analysis of customer satisfaction and Customer Loyalty

Model	Unstandardized Coefficients		Standardized Coefficients		T	Sig.	Adj R <sup>2</sup>	F
	B	Std. Error	Beta					
1 (Constant)	1.046	.208	.666		5.037	.000	.441	142.019
Customer Satisfaction	.674	.057			11.917	.000		

Dependent Variable: Customer loyalty

Table 6: Regression Analysis of Overall Service Quality and Customer Loyalty

Dependent Variable	Independent Variables	Beta	t	Sig.	Adj. R <sup>2</sup>	F
Customer Loyalty	Overall Service Quality	.741	14.701	.000	.546	216.125

Table 7: Results of hypotheses

Hypothesis	Beta	t	P	Results
H1: Overall service quality significantly affects customer satisfaction	.717	13.735	.000	Supported
H2: Tangibility significantly affects customer satisfaction	.147	1.854	.065	Not Supported
H3: Reliability significantly affects customer satisfaction	.215	2.568	.011	Supported
H4: Responsiveness significantly affects Customer Satisfaction	-.010	-.150	.881	Not Supported
H5: Empathy significantly affects customer satisfaction	.286	3.811	.000	Supported
H6: Assurance significantly affects customer satisfaction	.227	3.249	.001	Supported
H7: Service quality attributes significantly affect customer loyalty through Customer Satisfaction.	.223	3.340	.001	Partially Supported
H8: Customer satisfaction significantly affects customer Loyalty.	.666	11.917	.000	Supported
H9: Service quality directly affects customer loyalty.	.741	14.701	.000	Supported

with customer loyalty ( $p > 0.05$ ). In the third step of regression analysis, the impact of independent variables (Tangibility, Reliability, Responsiveness, assurance and empathy) has been studied on dependent variable (customer loyalty) in the presence of mediating variable (customer satisfaction). Here, model's adjusted  $R^2$  is .633 showing that independent variables accounted 63.3% variation in the dependent variable in presence of mediating variable. Moreover, in the third step, the results indicate that standard regression coefficients in case of reliability ( $\beta=.062$ ,  $p>.05$ ) and assurance ( $\beta=.038$ ,  $p>.05$ ) have not only decreased in magnitude but also become non significant; hence customer satisfaction fully mediates the relationship between reliability and customer loyalty and between assurance and customer loyalty. Further, as shown in step three, the results indicate that standard regression coefficient in case of empathy has decreased in magnitude from .52 to .465 in the presence of customer satisfaction but still is significant ( $P < .05$ ), thus, customer satisfaction partially mediates the relationship between empathy and customer loyalty. Moreover, there exist no mediating relationship of customer satisfaction between tangibility and customer loyalty as well as between responsiveness and customer loyalty. However, customer loyalty is directly influenced by tangibility as depicted by its significant p value of .011 in the 2nd step. Responsiveness showed neither direct nor indirect impact on customer loyalty as depicted by its p value (.881) in step 1 and (.728) in step 2.

For testing of hypothesis H8, this study regressed customer loyalty by customer satisfaction and results are shown in Table 5. The model's adjusted  $R^2$  is .441 showing that 44.1% of the variations in customer loyalty have been explained by customer satisfaction. Table values show that customer satisfaction has significant impact on customer loyalty ( $\beta = .666$ ,  $p < .05$ ).

To test the last hypothesis H9, this study regressed customer loyalty by overall service quality and results are shown in Table 6. The model's adjusted  $R^2$  is .546 showing that 54.6% of the variations in customer loyalty

have been explained by overall service quality. Table values show that overall service quality has significant impact on customer loyalty ( $\beta = .741$ ,  $p < .05$ ). These findings are in accordance with the results of Caruana's study [17].

**Hypotheses Results:** On the basis of above statistical findings, hypotheses results can be drawn which are shown in Table 7.

## DISCUSSION

Based on statistical results, all hypotheses of the study except H2 and H4 are supported. Empathy showed highest significant positive correlation with customer satisfaction and customer loyalty while responsiveness has least significant positive correlation with customer satisfaction and customer loyalty. On the other hand, tangibility showed direct positive impact on customer loyalty while customer satisfaction fully mediates the relationship between reliability and customer loyalty as well as between assurance and customer loyalty. Partial mediation has been observed between empathy and customer loyalty through customer satisfaction while responsiveness has neither direct nor indirect impact on customer loyalty.

**Tangibility:** Result of the study showed that tangibility and customer satisfaction are positively correlated. Tangibility has direct positive impact on customer loyalty. Customers prefer those banks which have technological up to date equipment and visually appealing pamphlets and bank statement or any other kind of tangible things related to service quality.

**Responsiveness:** In this study, responsiveness confirmed significant positive relationship with customer satisfaction but level of association is lower in magnitude ( $r = .471$ ) as compared with other dimensions of service quality ranging from  $r = .585$  to  $r = .649$ . It has proved

neither direct nor indirect impact on customer loyalty. Responsiveness means banks providing the service compliance with customer need. Positive correlation between customer responsiveness and customer satisfaction tells customers prefer those banks which provide services according to their needs.

**Reliability:** Reliability emerged as the second largest dimension correlated with customer satisfaction with r-value of .637 among other variables of correlation matrix. Customer satisfaction is fully mediating relationship among reliability and customer loyalty. Reliability means what the services has been promised with customer are being delivered with standard. It also means customer is delivered what he had paid for that service. Customer believes that banks providing service matching with their interest and standard.

**Empathy:** Chris *et al.* [55] found that effective attitude, overall satisfaction and empathy are related with customers' willingness to suggest a bank and willingness to continue a customer long-term business. Empathy demonstrated the strongest positive correlation with customer satisfaction as apparent from its r-value of .649 in the correlation matrix. A partially mediation has been observed between empathy and customer loyalty through customer satisfaction.

Customers want individual preference and need fulfillment. Front desk employees interact with customer so their training must be conducted in this regard and incentives should be provided to front desk employees so that they will be able to retain satisfied and loyal customer. It is associated with internal marketing that means service firm must undertake orientation and motivate its customer-contact employees to work as a team to provide customer satisfaction [18].

**Assurance:** There also showed a positive correlation between assurance and customer satisfaction as it is the third highest attribute having r-value of .595 among other variables of correlation matrix. Results showed that customer satisfaction fully mediates the relationship among assurance and customer loyalty. Assurance means ability of the service provider on which customers feel confidence that service provider have ability to provide the service. Positive correlation between assurance and customer satisfaction enlightens that customers recognize banks provide service in professional manners.

**Customer Satisfaction and Customer Loyalty:** This study confirms the strong positive correlation among customer satisfaction and customer loyalty. Satisfied customers ultimately become loyal with the banks. Satisfied customers become non paid advertisement channel for banks. They give reference to others to do business with bank. Hence, banks can reduce their cost of advertisement as well as they build long term business relationship with banks.

**Overall Service Quality, Customer Satisfaction and Customer Loyalty:** This study has shown a strong impact of overall service quality on customer satisfaction as well as customer loyalty. Customer satisfaction played a mediating role in the path between service quality attributes and customer loyalty. Hence, managers must pay full attention on the standards that how well service is being offered by the bank in order to make them satisfied and build long term relation with them. High quality service will eventually turn satisfied customers into loyal customers as the mediating effect of customer satisfaction confirms the relationship.

**Managerial Implications:** This study demonstrated interrelationships among service quality, customer satisfaction and customer loyalty in the retail banking sector of Pakistan. As evident from correlation matrix that all service quality attributes are positively correlated with customer satisfaction as well as customer loyalty, so, managers of the banks should be focused upon the provision of efficient and effective quality services. Empathy shows the highest positive correlation with customer satisfaction and customer loyalty in the current study. As empathy is related with the bank employees, thus bank managers should concentrate on the employee training programs so that they can offer effective personalized service. Vision and the mission statement should be displayed to draw attention of the customers on the customer handling policy and to develop a long-term relationship with the customers. It is also revealed from the study that there is a strong correlation between customer satisfaction and customer loyalty. Hence bank managers should concentrate not only on maintaining existing services but also enhancing the service standards as the customer satisfaction mean score is just above the threshold point. Tangibility has direct impact on customer loyalty, so managers must take essential steps that differentiate their tangibility



(location, clear visually bank statements and employees dress etc) among other banks. Reliability and assurance also have indirect link with customer loyalty through full mediation of customer satisfaction. Therefore, managers must assure that customers are delivered with services on time and with highest standard for which they should arrange complete training to their employees for solving the problems of the customer so that employee may able to satisfy bank customers as ultimately the satisfied customers become the loyal customers [56-60].

**Limitations and Directions for Future Research:** There are some limitations conducting this study. First, the sample size is small to represent the overall population and secondly the convenience sampling technique was used to collect data from bank customers. In future, researcher may include a large sample size and may practice a random sampling which is the basis for generalizability of the findings. Thirdly, in this study the data was collected only from the district of Multan while customers from other areas of the country may have different experiences. There are some other factors also that can affect customer preference like convenience, charges etc. This study included only retail banking customers while corporate bank customers and foreign account holding customers are not included in the sample. In future, researchers may include those customers other than the retail banking customers.

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