

**AN INFLUENCE OF SERVICE QUALITY  
CUSTOMER SATISFACTION AND  
CUSTOMER LOYALTY IN  
COMMERCIAL BANKS OF SRI LANKA:  
SPECIAL REFERENCE TO NORTHERN  
PROVINCE**

**by**

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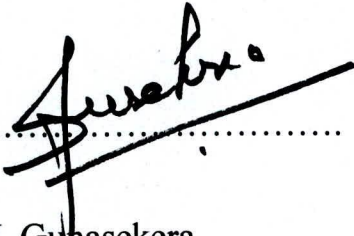
Thesis submitted to the University of Sri Jayewardenepura in  
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The work described in this thesis was carried out by me under the  
supervision of Mr. M.A.M. Gunasekera and a report on this has not been  
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## **ABBREVIATIONS**

LCB: Licensed Commercial Bank

LSB: Licensed Specialised Bank

CBSQ: Chinese Banking Service Quality

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## ABSTRACT

The Northern Province of Sri Lanka has been affected by war over the past three decades. Post war developments paved a way for new market entries and expansion of new branches of existing banks which in turn led to hyper-competition in the market place among the already existing and the new banks where the former focuses on retaining the existing customers and the latter on attracting new customers. Such an intense competition emphasizes the need for identification of determinants of customer loyalty. Thus, the current study attempts to fill the empirical gap that exists especially in the Sri Lankan context. The study was conducted in a Commercial Bank setting and the hypotheses were developed in order to find out the relationship between the constructs. The population consisted of customers of Commercial Banks in the Northern Province of Sri Lanka and the sample of 300 respondents were selected based on the proportion of the population of Commercial Banks of each district of the Northern Province of Sri Lanka using the convenience sampling method. The data were analyzed using SPSS version 21.0 and SmartPls version 3.0.

The measurement model analysis confirmed the reliability and validity of data and the structural model proved a statistically significant direct positive relationship between the constructs; service quality and customer loyalty, service quality and customer satisfaction and customer satisfaction and customer loyalty. In addition, the results revealed a mediating role of customer satisfaction in the effect of service quality on customer loyalty. Further, the constructs of service quality and customer satisfaction were moderately explained by the variance in customer loyalty while, service quality alone moderately explained the variance in customer satisfaction. Therefore, it was

concluded that higher levels of service quality of banks lead to higher levels of customer satisfaction, and customer loyalty. Further, improving the service quality of the banks directly leads to enhancing customer satisfaction which eventually leads to enhance customer loyalty towards the banks.

# CHAPTER 01

## INTRODUCTION

### 1.1 Background of the study

The current business environment is highly competitive more than ever before (Sivadas and Baker-Prewitt, 2000) where marketers try their best to capture a big market share. As stated by Arasli, Katircioglu and Mahtap-Smadi (2005) there is a growing importance of services in the world economy. Marketing of services indicates an intense competition (Zeithaml, Bitner, Gremler and Pandit, 2011) which is because of its' special characteristics such as intangibility, heterogeneity, inseparability and perishability. Moreover, the arrival of new firms in the market with almost similar products or services have led to high competition and made the customers avail themselves of number of options or choices which in turn equips them with high bargaining power. The massive use of marketing communication tools have enhanced customer awareness and differentiation of brands (Andreassen and Lindestad, 1998). To compete in such a congested and interactive marketplace firms are forced to look beyond traditional marketing strategies, which are no longer enough to be implemented for achieving competitive advantage. Hence, the firms have to find different strategies for their survival in the market and to maintain their current position in an ever increasing competitive marketplace (Kandampully, 1998).

Service organizations are seeking ways to forge and to maintain an on-going relationship with their customers in order to protect their long term interest (Kandampully, 1998). Just attracting new customers in the marketplace is not enough,

rather organizations need to give more importance to customer retention (Santouridis and Trivellas, 2010). Retention of existing customers is cheaper than attracting new customers. Further, loyal customers are more profitable to the firm and sympathise with poor service and display poor sensitivity to price (Yang and Peterson, 2004). This reveals the need for building customer loyalty through long-term customer relationships. As customer loyalty is the final goal of relationship marketing, it is concerned about building customer loyalty by providing value to all the parties involved in the relational exchanges (Peng and Wang, 2006).

There are several constructs identified by past researchers as the determinants of customer loyalty such as service quality (Tarus and Rabach, 2013; Malik, Naeem and Arif, 2011; Puja and Yukti, 2011; Gurbuz, 2008; Ehigie, 2006; Bloemer, Ruyter and Wetzels, 1999; Zeithaml *et al.* 1996); customer satisfaction (Keisidou *et al.* 2013; Santouridis and Trivellas, 2010; Ehigie, 2006; Yang and Peterson, 2004); perceived service value (Tarus and Rabach, 2013; Yang and Peterson, 2004); customer trust (Roostika, 2011; Filip and Anghel, 2009); commitment (Ou, Shih, Chen, and Wang, 2011; Filip and Anghel, 2009); and perception of image (Keisidou *et al.* 2013; Akhter *et al.* 2011; Andreassen and Lindestad, 1998; Bloemer *et al.* 1998). In addition, switching cost serves as a moderator (Rahman and Kamarulzaman, 2012; Filip and Anghel, 2009; Yang and Peterson, 2004) in the service quality and customer loyalty relationship. Ruyter, Wetzels and Bloemer, (1998) documented that the determinants of service loyalty varied as per industry.