Investigating the relationship between service quality and loyalty in Greek banking sector

Argyrios Kranias\textsuperscript{a*}, Maria Bourlessa\textsuperscript{b}

\textsuperscript{a}Technological Institute (TEI) of Western Macedonia, Kastoria Campus, Department of Public Relations and Communication, 52100, Kastoria, Greece
\textsuperscript{b}Technological Institute (TEI) of Western Macedonia, Kastoria Campus, Department of Public Relations and Communication, 52100, Kastoria, Greece

Abstract

In today’s turbulent economic environment service quality is an invaluable asset that banks should manage in order to survive and gain a competitive advantage. The present study assessed and compared the level of perceived service quality offered by various Greek banks. Significant differences were found between the Greek banks regarding the perceived quality of their banking services. Moreover, this study examined the highly debated link between service quality and service loyalty. The findings of the present study indicate that the convenience-proximity of the bank impacts significantly on the loyalty of bank customers.

Keywords: service quality; service loyalty; Greek banking sector

1. Introduction

During the past decade the Greek banking industry has faced a number of changes. The globalization and liberalization of the Greek banking sector along with the rapid technological developments have intensified the competition and created a dynamic and unstable environment (Noulas and Glaveli, 2002). Today, the economic crisis is another major threat for the Greek banks which need to realign their strategies in order to survive and succeed in this hostile and turbulent environment. It is imperative for Greek banks to shift their

\* Corresponding author. Tel.: +30 24670 82270; fax: +30 24670 82270.
\textit{E-mail address:} argykran1@students.kastoria.teikoz.gr.
attention in delivering exceptional service quality for attracting (Arasli et al., 2005) and retaining loyal
customers.

The link between service quality and loyalty has attracted the interest of several researchers. However
results of those studies are somehow inconsistent. On one hand, there are studies that have revealed the direct
impact of service quality on the loyalty of bank customers (Zeithaml et al., 1996; Bloemer et al., 1998). On the
other hand, the majority of studies have found an indirect link between quality and customer loyalty.
Specifically, the aforementioned findings highlight the mediating effect of satisfaction on the relationship
between quality and loyalty (Caruana, 2002).

Hence, the present study tries to delineate the critical link between service quality and service loyalty in the
Greek banking sector. Moreover, this study assesses and compares the level of the service quality provided by
the Greek banks.

2. Literature Review

According to Parasuraman et al. (1988) the perceived service quality is defined as a “global
judgment, or attitude, relating to the superiority of the service” (p. 16) that results from the difference between customer
expectations about the service and their perceptions about the actual service received (Asubonteng et al.,
1996). It can be argued that there is a widely consensus among researchers that service quality consists of five
dimensions namely, tangibles, reliability, responsiveness, assurance, and empathy (Parasuraman et al., 1988;
1991). Specifically, tangibles reflect customer perceptions about the physical evidence of the service company
and reliability is related to the accurate performance of the service. Moreover, responsiveness reflects
employee’s willingness to help their customers while assurance is related to the behavior and expertise of
employees. Empathy is linked to customer perceptions about the attention the service provider gives to the
customers.

Even though the aforementioned five dimensions have been widely used to measure service quality,
several researchers have criticized the validity of the SERVQUAL instrument. For example, Cronin and
Taylor (1992) indicated that service quality could be best measured based on three factors namely,
expectations, performance and importance of several service characteristics such as equipment and service
environment, employees appearance and performance and service delivery. In the context, of the banking
sector, Gounaris et al. (2003) argued that the SERVQUAL model mostly assesses customer perceptions about
employees and service environment while it does not account for other critical elements of the service quality
such as product innovativeness and price. Hence, Gounaris et al. (2003) based on the SERVQUAL model
suggested that perceived service quality in the context of the banking sector should be consisted of six
dimensions namely, employee competence, bank’s reliability, and product innovativeness, value for money,
physical evidence and proximity convenience of the bank.

Regardless of the way service quality has been measured, its impact on several aspects of consumer
behavior is evident. Service quality influences strongly customers’ perceived value, satisfaction, re-visit
(Cronin et al., 2000) as well as word-of-mouth intentions (Yavas et al., 2004; Harrison-Walker, 2001). As
previously mentioned, most of the researchers agree that service quality impacts indirectly loyalty via
satisfaction (Beerli et al., 2004; Lewis and Soureli, 2006; Caruana, 2002; Jamal and Anastasiadou, 2009)
whereas a number of studies have proved the direct impact of service quality on loyalty. For example,
Zeithaml et al. (1996) in an early study, investigating several services companies found a strong association
between service quality and service loyalty. According to the meta-analysis conducted by Carrillat et al. (2009), service quality impacts purchase intentions and thus customers’ loyalty in a direct as well as in an indirect way through satisfaction. In the context of banking services, Bloemer et al. (1998) revealed that the reliability and efficiency of a service impacts on the level of customers’ loyalty. Similarly, Kheng et al. (2010) found a direct positive link between quality factors such as reliability, empathy and assurance and customer loyalty. However, Bloemer et al. (1999) highlights that the relationship between service quality and loyalty is unclear and needs further investigation. Hence, the present study examines the impact of bank service quality factors (i.e. employee competence, bank’s reliability, and product innovativeness, value for money, physical evidence and proximity-convenience) on customers’ loyalty.

3. Methodology

The present study took place at a Northwestern city of Greece. A self-administered questionnaire was designed and delivered to customers of various Greek bank branches. Specifically, the present study examined customer perceptions of service quality of the eight biggest Greek banks namely, Eurobank, Alpha Bank, National bank of Greece, Agricultural bank of Greece, Bank of Cyprus, Piraeus Bank, Hellenic Post bank and Emporiki bank. Specifically, Eurobank EFG Group is a member of the EFG Group and one of the largest banking groups in Switzerland. Alpha Bank offers a wide variety of banking services (i.e. loans, credit cards, insurance, leasing, and factoring). National Bank of Greece is the oldest Greek bank that has expanded in the Southeastern Europe and the Eastern Mediterranean region. Agricultural bank of Greece specializes in the provision of banking services for the agricultural sector. The Bank of Cyprus has recently been established in Greece and now operates 17 branches. Piraeus Bank specializes in financial and banking services for retailers, and SME (small and medium enterprises). Hellenic Postbank has been characterized as the Greek savings bank. Emporiki Bank was a primarily commercial bank. Now it is a member of the Crédit Agricole International Banking Group.

In order to measure the perceived quality of the banking services the scale developed by Gounaris et al. (2003) was used. Moreover, to measure loyalty, the following question was asked: “How often do you usually visit your bank during a month period?” A five-point scale was employed to obtain estimates of the visit frequency: (1) less than a time; (2) about two times, (3) three to five times, (4) six to eight times, and (5) more than eight times.

4. Results

The sample consisted of 468 customers of Greek banks. Fifty three percent of respondents were females while forty seven percent were males. The majority of participant was less than 45 years old (76.1%) and held a bachelor’s degree (42.3%). Thirty two percent of the respondents were freelancers and 23.9 percent were public sector employees. In addition, 64.1 percent of participants earned less than1.200 euros per month.

Reliability analysis using the estimate of Cronbach’s alpha was performed to test the internal consistency of each of the quality’s sub-scales. Employee competence and convenience subscales showed adequate internal consistency (cronbach alpha= 0.81 and 0.77 respectively).
Regarding the four-item reliability dimension of quality cronbach’s alpha did not exceed the 0.70 threshold recommended by Cronbach (1970) so one item was dropped from further analysis (i.e. *it informs me without errors for my transaction*) to achieve a maximum alpha value of 0.72. Similarly, for the product innovativeness factor, the item *the new products that my bank offers meet my needs* was discarded from the data set and a maximum alpha value was achieved (cronbach’s alpha=0.701). The alpha value for the three-item factor of price was 0.31. Since, the alpha coefficient for the scale was not improved with the deletion of any single item; all three items that comprised the price dimension of quality were dropped from analysis. In addition, after deleting one item from the physical evidence dimension (i.e. *the atmosphere inside the bank gives you a positive impression for the services it offers*) the alpha coefficient exceeded the 0.70 criterion (cronbach’s alpha=0.746).

Next, the average summated scale scores were computed for each of the remaining quality sub-dimensions. An analysis of variance was performed in order to test if there are significant differences between the different banks and customers perceptions about the quality factors. Table 1 shows the mean scores of the five quality dimensions for the eight Greek banks. Based on Table 1 the branch of Pireaus Bank had the highest quality scores in factors such as employee competence, reliability, product innovativeness and convenience while the branch of the Bank of Cyprus received the highest scores in the physical evidence factor. On the contrary, the branch of Emporiki bank had the lowest scores in all five quality factors.

| Banks            | Employee Competence | Reliability | Product Innovativeness | Physical Evidence | Proximity-Convenience |
|------------------|---------------------|-------------|------------------------|-------------------|-----------------------|
| Eurobank         | 3.73                | 3.75        | 3.58                   | 3.89              | 3.63                  |
| Agricultural Bank of Greece | 3.61                | 3.68        | 3.57                   | 3.60              | 3.35                  |
| Emporiki Bank    | 3.32                | 3.31        | 3.12                   | 3.43              | 3.09                  |
| National Bank of Greece | 3.37                | 3.43        | 3.36                   | 3.45              | 3.52                  |
| Alpha Bank       | 3.60                | 3.74        | 3.60                   | 3.81              | 3.67                  |
| Bank of Cyprus   | 3.65                | 3.75        | 3.68                   | 4.11              | 3.56                  |
| Piraeus Bank     | 3.78                | 3.96        | 3.69                   | 3.97              | 3.97                  |
| Hellenic Post Bank | 3.74                | 3.65        | 3.64                   | 3.70              | 3.76                  |

Results of analysis of variance indicated that the eight banks differed significantly at the p < 0.05 level \[F(7, 460)=4.49, p=0.000\] in the employee competence scores. Post-hoc comparisons using Tukey’s HSD test revealed that Eurobank (M=3.73) and Piraeus bank (M=3.78) had significantly (p<0.05) higher scores in the employee competence than Emporiki (M=3.32) and National Bank of Greece (M=3.37). Banks also different significantly at the p<0.05 level \[F(7, 460)=5.28, p=0.000\] in the reliability scores. Specifically, Piraeus bank (M=3.96) scored significantly higher than Emporiki Bank (M=3.31) and National Bank of Greece (M=3.43). Significant differences at the p <0.05 level were also revealed between the banks on the product innovativeness dimension \[F(7, 460)=4.13, p=0.000\]. Post-hoc comparisons show that Emporiki bank (M=3.12) scored significantly (p=0.05) lower in the product innovativeness factor than did banks such as Eurobank (M=3.58), Agricultural bank of Greece (M=3.57), Alpha bank (M=3.60) and Piraeus bank (M=3.69).
The findings also showed that the banks differed significantly in the the physical evidence quality scores at the p < 0.05 level [F(7, 460)=8.16, p=0.000]. Comparisons between groups revealed that Emporiki bank (M=3.43) and National bank of Greece (M=3.45) had received significantly lower evaluations in their physical evidence compared to banks like Eurobank (M=3.89), Alpha Bank (M=3.81), Bank of Cyprus (M=4.11) and Piraeus bank (M=3.97). Moreover, Piraeus had higher scores in the physical evidence factor than the Agricultural bank of Greece (M=3.57). Regarding the convenience-proximity quality factor scores, banks differed significantly at the p < 0.05 level [F(7, 460)=6.52, p=0.000]. Specifically, Emporiki bank scored lower in the convenience factor (M=3.09) compared to banks such as Eurobank (M=3.63), National Bank of Greece (M=3.52), Alpha Bank (M=3.67), Piraeus Bank (M=3.97) and Hellenic Post Bank (M=3.76). This finding could be attributed to the location of Emporiki Bank which is away from the city center where most of the other banks are concentrated. In addition, Piraeus Bank was significantly more convenient than the Agricultural Bank (M=3.60) and the National Bank of Greece.

In order to test the relationship between the service quality and loyalty a linear regression was performed. Results of regression analysis indicate that the regression model was valid (F=3.83, p= 0.002). However, the explanatory power of the regression model is very low as indicated by the low adjusted square value (0.029). Table 2 shows the regression coefficients of the independent variables. Results indicate that only the convenience dimension of loyalty significantly (p=0.05) influenced in a positive manner customer loyalty. Hence, a customer will visit the bank’s branch more frequently if the branch location is convenient for the customer.

Table 2. Regression estimation for service loyalty

| Independent Variables       | Standardized Coefficient | T Statistic | Significance |
|----------------------------|--------------------------|------------|-------------|
| Constant                   |                          | 2.36       | 0.000       |
| Employee Competence        | 0.06                     | 1.01       | 0.311       |
| Reliability                | 0.05                     | 0.95       | 0.339       |
| Physical Evidence          | 0.00                     | 0.06       | 0.950       |
| Convenience                | 0.13                     | 2.86       | 0.004       |
| Product Innovativeness     | 0.01                     | 0.17       | 0.863       |

5. Discussion

The present study assessed the level of service quality provided by eight Greek banks using the instrument developed by Gounaris et al. (2003). Results indicated that Piraeus Bank was perceived by its customers as a bank with high service quality in all the six dimensions such as employee competence, reliability, physical evidence, convenience and product innovativeness. On the contrary, two of the oldest banks in Greece namely, The National Bank of Greece and Emporiki bank scored low in all of the quality factors. Hence, the findings indicate that Greek banks should redesign their service offering and interior design in order to create a more modern atmosphere that will attract customers. The study also shed light on the unclear relationship between service quality and service loyalty. Specifically, the present study revealed that only the convenience – proximity dimension of quality influenced strongly customer loyalty. None of the other factors impacted
significantly on the loyalty of bank customers. Hence, banks should take into consideration the location of their branches. Greek customers will become loyal to banks that are near their workplaces or the city center.

References

Arasli, H., Mehtap-Smadi, A., Katircioglu, A.T., 2005. Customer Service Quality in the Greek Cypriot Banking Industry, *Managing Service Quality* 15: 41-56.

Asubonteng, P., McCleary, K., Swan, J. 1996. SERVQUAL Revisited: A Critical Review of Service Quality, *Journal of Services Marketing* 10: 62-81.

Beerli, A., Martin, J., Quintana, A., 2004. A Model of Customer Loyalty in the Retail Banking Market, *European Journal of Marketing* 38: 253-275.

Bloemer, J., de Ruyter, K., Peeters, P., 1998. Investigating Drivers of Bank Loyalty: The Complex Relationship Between Image, Service Quality and Satisfaction, *International Journal of Bank Marketing* 16: 276-286.

Bloemer, J., de Ruyter, K., Wetzelis, M., 1999. Linking Perceived Service Quality and Service Loyalty: A Multi-dimensional Perspective, *European Journal of Marketing* 33: 1082-1106.

Carrillat, F., Jaramillo, F., Mulki, J.P., 2009. Examining the Impact of Service Quality: A Meta-Analysis of Empirical Evidence, *Journal of Marketing Theory and Practice* 17: 95-110.

Caruana, A. 2002. Service Loyalty: The Effects of Service Quality and the Mediating Role of Customer Satisfaction, *European Journal of Marketing* 36: 811-828.

Cronbach, L.J. 1970. *Essentials of Psychological Testing*, New York: Harper & Row.

Cronin, J., Brady, M., Hult, T., 2000. Assessing the Effects of Quality, Value, and Customer Satisfaction on Consumer Behavioral Intentions in Service Environments, *Journal of Retailing* 76: 193-218.

Cronin, J., Taylor, S., 1992. Measuring Service Quality: A Reexamination and Extension, *Journal of Marketing* 56: 55-68.

Gounaris, S., Stathakopoulos, V., Athanassopoulos, A., 2003. Antecedents to Perceived Service Quality: An Exploratory Study in the Banking Industry, *International Journal of Bank Marketing* 21: 168-190.

Harrison-Walker, J., 2001. The Measurement of Word-of-Mouth Communication and An Investigation of Service Quality and Customer Commitment as Potential Antecedents, *Journal of Service Research* 4: 60-75.

Jamal, A., Anastasiadou, K., 2009. Investigating the Effects of Service Quality Dimensions and Expertise on Loyalty, *European Journal of Marketing* 43: 398-420.

Kheng, L., Mahamad, O., Ramayah, R., 2010, The Impact of Service Quality on Customer Loyalty: A Study of Banks in Penang, Malaysia, *International Journal of Marketing Studies* 2: 57-66.

Lewis, B., Soureli, M., 2006. The Antecedents of Consumer Loyalty in Retail Banking, *Journal of Consumer Behaviour* 5: 15-31.

Noulas, A., Glaveli, N., 2002. Bank Branch Efficiency: An Application of DEA Analysis, Paper Presented at the Annual Meeting of EFMA, London, June.

Parasuraman, A., Zeithaml, V., Berry, L., 1988. SERVQUAL: A Multiple-item Scale for Measuring Consumer Perceptions of Service Quality, *Journal of Retailing* 64: 12-40.

Parasuraman, A., Zeithaml, V., Berry, L., 1991. Refinement and Reassessment of the SERVQUAL Scale, *Journal of Retailing* 67: 420-450.

Yavas, U., Benkenstein, M., Stuhldreier, U., 2004. Relationships Between Service Quality and Behavioral Outcomes: A Study of Private Bank Customers in Germany, *International Journal of Bank Marketing* 22:144-157.

Zeithaml, V., Berry, L., Parasuraman, A., 1996. The Behavioral Consequences of Service Quality, *Journal of Marketing* 60: 31-46.