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# The Effects of the Service Quality Dimensions on Customer Satisfaction and Customer Loyalty: The Experience Of the Paphos Cooperative Bank In Cyprus

Panaris, Gavriel

Master of Business Administration, School of Business, Neapolis University Pafos

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**The Effects of the Service Quality Dimensions on Customer Satisfaction and Customer Loyalty: The Experience Of the Paphos Cooperative Bank In Cyprus**

**By**

**GAVRIEL PANARIS**

**MASTER IN BUSINESS ADMINISTRATION THESIS**

**NEAPOLIS UNIVERSITY PAPHOS**

**2 Danais Avenue**

**8042 Paphos**

**Cyprus**

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## **Abstract**

The aim of this study is to reveal the level of service quality in Cooperative Bank of Paphos and identify the effects and relationships the service quality has on customer satisfaction and customer loyalty. The study also aims to expose the possible gaps and omissions in the performance of the service and suggest ways for improvement. The research questionnaire was developed using the Servqual method that measures customers' expectations and perceptions to define the level of quality through its five dimensions. Customer satisfaction and loyalty are also measured by the questionnaire. The sample consists of 100 bank customers who volunteered to participate in the study. The results indicated that the overall service quality of Paphos Coop Bank is at a fairly high level and that at least three quality dimensions of the Servqual model, Assurance, Reliability and Responsiveness are very important to the Bank's customers. Although Empathy and Tangibility contribute to the overall quality perception, are found to be less important to customers. The study also revealed that the service quality level has a significant effect on the customers satisfaction and customer loyalty. Measuring the service quality in Paphos Coop Bank and examining its effects and relationships with other key aspects of the business, produced valuable information that can be used to improve the Bank's competitive advantage.

## **1. Introduction**

It is widely acknowledged that the global economy is going through a recession as a result of the financial crisis that hit the world economies in 2007. Banking institutions found themselves struggling for survival in an aggressive competitive environment. Especially in Europe many banks have suffered from low liquidity and capital inadequacy as a result of the economic downturn and the high volume of non-performing loans that were created. These factors drove many banks in merges and acquisitions and set to restructure their former policies and strategies that put them in this hazardous position. The Cyprus banking system had to withstand an appalling decision forced by the Troika (European Central Bank, European Commission and International Monetary Fund) in order to be rescued which led in the loss of the clients deposits over €100 000 in the two largest banks . This shocked the banking system of Cyprus and customers trust was abolished overnight. In this new challenging business environment Cyprus banks are competing to retain their customers and earn their trust again by offering high quality services that creates