



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

**By**

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## Table of Contents

<b>I List of Figures .....</b>	<b>5</b>
<b>II List of Tables .....</b>	<b>5</b>
<b>III List of Charts .....</b>	<b>5</b>
<b>Acknowledgements.....</b>	<b>6</b>
<b>Abstract.....</b>	<b>7</b>
<b>1. Introduction.....</b>	<b>7</b>
1.1 Objectives and Aim of the Study .....	8
<b>2. Literature Review .....</b>	<b>10</b>
2.1 Service definition.....	10
2.2 Service Characteristics.....	11
2.3 Service Quality.....	15
2.4 The Servqual Model.....	18
2.4.1 The Quality Gaps .....	20
2.4.2 Limitations – Arguments about Servqual Model.....	22
2.5 Customer Satisfaction .....	24
2.6 Loyalty .....	27
<b>3. Methodology .....</b>	<b>30</b>
3.1 Research Subjects.....	30
3.2 Analytical Procedure .....	31
3.3 Questionnaire Breakdown and Coding.....	31
3.4 Ethical Considerations .....	32
<b>4. Findings/Results and Hypothesis Testing.....</b>	<b>33</b>
4.1 Sample and Response Rate .....	33
4.2 Descriptive Statistics.....	33
4.3 Factor Analysis.....	37
4.4 Reliability .....	43
4.5 Correlation and Hypothesis Testing .....	44
4.6 Perceptions - Expectations Gap.....	47
<b>5. Discussion .....</b>	<b>49</b>
<b>6. Conclusions .....</b>	<b>54</b>
6.1 Practical Implications.....	56
6.2 Limitation and future research suggestions .....	57
<b>References.....</b>	<b>58</b>

<b>Appendix .....</b>	<b>64</b>
Appendix I - English Questionnaire .....	64
Appendix II - Greek Questionnaire .....	71
Appendix III - Coding of Research Data .....	78
Appendix IV - Questionnaire Breakdown .....	80
Appendix V - Charts of Descriptive Statistics.....	83

## I List of Figures

Figure 1: Customers Expectation levels and Zone of Tolerance (Zeithaml et al., 1993, p. 5)	16
Figure 2: The Behavioral and Financial Consequences of Service Quality (Zeithaml et al., 1996, p. 33).....	17
Figure 3: Service Quality Model (Parasuraman et al., 1985 p. 44) .....	22
Figure 4: Theoretical Framework (Lau et al., 2013, p. 270) .....	30

## II List of Tables

Table 1: Descriptive Statistics of the Sample.....	34
Table 2: Rotated Component Matrix Varimax – Expectation Items .....	40
Table 3: Rotated Component Matrix Varimax – Perception items .....	42
Table 4: Component Matrix – Customer Satisfaction .....	42
Table 5: Component Matrix – Customer Loyalty .....	43
Table 6: Communalities – Loyalty Items .....	43
Table 7: Components Cronbach Alpha Values .....	44
Table 8: Means, standard deviations and correlations coefficient estimates for Tangibles, Reliability, Responsiveness, Assurance, Empathy, Satisfaction and Loyalty. ....	46
Table 9: Quality Dimensions Mean Values and P-E Differences .....	48
Table 10: Coding of Research Data ( Parasuraman et al. 1988; Ladhari 2009; Blery et al. 2009).....	79

## III List of Charts

Chart 1: Group Age of the Sample .....	35
Chart 2: Occupation of the Sample .....	35
Chart 3: Monthly Income of the Sample .....	36
Chart 4: Family Status of the Sample.....	37
Chart 5: Quality Dimensions Mean Values .....	48
Chart 6: P-E Gap Scores.....	49

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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