Customer Loyalty in Financial Sector: A case study of Commercial Banks in Southern Punjab

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Abstract

By considering the intense competitiveness and prevalent challenges in the current business environment, organizations can't survive just focusing on attracting and capturing new customer but they have to choose the strategy that help in retaining the existing customers and enhanced their loyalty to the organization. So, in the customer service based industry, satisfied customers are no longer suitable, and the businesses have to explore the new ways to flourish and promote the loyalty of customers. The current study hypothesize that customer loyalty is significantly affected by the customer satisfaction and trust of the customers. Whereas, perceived value and service quality is important determinants to create the customer satisfaction and trust. The data was collected from different customers of various banks and the hypothesize links are tested. Results indicate that there is a significant relationship between customer satisfaction and trust with customer loyalty. It is also confirmed that service quality and perceived value are important antecedents of customer satisfaction and trust. The results present a comprehensive model in the financial sector to create and manage customer loyalty.

Keywords: Financial sector, Perceived value, Service quality, Customer satisfaction, Trust and Customer loyalty.

1. Introduction

In this century, numerous companies having higher functioning in several segments are struggling passionately to capture and sustain their loyal customers. According to Kotler & Armstrong (1999), due to increasing trend in competition intensity, overheads of new customers are getting higher day by day even majority of markets achieved their mature level. So, banking industry can't be separated from this trend that's why new effective managerial strategies must formed by banks to hold their loyal customers (Ehigie, 2006). To avoid the switching of loyal customers to the other banks, it is compulsory for bank mangers that they have complete understanding of what their customers required as well as built up the strong long term professional relationships with them. Consequently any tactic that can outperform in order to achieve the organizational goals would be in center of consideration.

By considering the intense competitiveness and prevalent challenges in the current business environment, organizations can't survive just focusing on attracting and capturing new customer but they have to choose the strategy that help in retaining the existing customers and enhanced their loyalty to the organization. So, in the customer service based industry, satisfied customers are no longer suitable, and the businesses have to explore the new ways to flourish and promote the loyalty of customers. According to Castro et al. (2004), Loyalty originates from belief in quality of service, psychological decision (i.e., behavioral intention) along with constructive attitude are the basic factors of loyalty and it is perceived as recurrence and stability in customer purchase behavior.

According to Guðmundsdóttir (2009), due to financial crisis in 2008, Pakistani banks had shown a significant decline in the trust level. This crisis has shifted the image of all the banks positive to negative. Along with huge monetary loss, Pakistani banking system has losted trust of many customers and firms as well as level of satisfaction, loyalty and trust has fallen. According to a investigation directed by Hermansdóttir et al. (2009) after the insolvency, indicates that customers are annoyed and dissatisfied and bank image is negatively perceived. However, Eklöf and Söderberg (2009) analyzed the banking sector of Nordic and north European countries and it is revealed that satisfaction, trust and loyalty had dropped during the financial crisis of 2008-09. Therefore, similar results are assumed in the case of Pakistani banking sector as affected by the financial crisis.

Several studies conducted on the importance of perceived image of service companies, such as banks in service industries (Ball et al., 2004; Bontis et al., 2007; Bravo et al., 2009). But some studies showed that image has not a direct positive/negative effect on loyalty (Ball et al., 2004; Bloemer et al., 1998). After the financial crisis Pakistani banks start focusing on their recovery by reposition themselves in the market and change their image, there is no significant impact of image is discovered in Pakistani banking industry. According to Guðmundsdóttir (2009) stated the repositioning and other changes do not affect trust or loyalty alone due to certain conflicts of interests between the banks and their customers.

From all the above discussion it is cleared that trust level is low, but no methods are known how to regain lost trust after a crisis. Mostly researches conducted on attitudinal loyalty while behavioral loyalty is neglected in the context of Pakistani banking sector (Hermannsdóttir et al., 2009; Guðlaugsson 2008). Therefore, in this thesis trust and behavioral loyalty is focused along with the analysis of these concepts and investigate the customer's value drivers that are considered to affect these concepts.

2. Literature Review

2.1 Relationship Marketing Overview

According to Beerli et al. (2004), environment in financial industries such as banking is very competitive, dynamic and great complexity in services offered, so identification of significance of customer orientation along with the basic principles of interpersonal marketing is very crucial. Customer loyalty is the core aim of interpersonal marketing. In service marketing, retaining loyal customers through trusting and dedicated associations is

becoming an increasingly critical factor. It becomes more critical in banking industry, because now it is difficult for customers to distinguish between different products and service attributes when all the banks provide similar offerings. Morgan and Hunt (2006) gave the more precise definition of relationship marketing that cover all aspects of interpersonal exchange.

Relational marketing is defines as: *"all marketing activities directed toward founding and preserving successful relational exchanges"*. The same definition of relationship marketing will be used in this thesis to explore how this concept is used in service industries such as the banking industry. According to Liang and Wang (2007) behavioral loyalty is dependent on customer relationships, so it is crucial to discuss the concept relationship marketing and explain why it is important in the bank industry.

2.2 Customer Loyalty

Singh and Sirdesh ukh (2000) recommended the customer loyalty as "the market place currency of the twenty-first century". Ndubisi & Pfeifer (2005) explained it as that the serving cost of a loyal customer is five or six times less than a new customer. This statement indicates the importance of customer loyalty. According to Walsh et al. (2005) it is better to serve first the existing customer before acquiring new customers. Gee et al. (2008) stated the advantages of customer loyalty are as:

- The service cost of a loyal customer is lesser than new customers.

- They will give higher costs for a combination of products; and

- For a company, a loyal customer will perform as marketing agent and positive word of mouth for the company.

Foss and Stone (2001) related the customer loyalty to what a customer thinks and tries to do. Many experts would agree that loyalty is best defined as a state of mind, a set of attitudes, beliefs, desires etc. Loyalty is established by approaches which highlight and build up a positive state of mind and the associated behaviors. Timely and accurate exchange of information is one of the keys of loyalty and built a critical bridge between state of mind and behavior. Loyal customers give feedback to the businesses with the expectation that this information is evaluated in better way and used for their benefit because they trust the businesses. Managing behavior along with administering a state of mind is crucial in managing customer loyalty.

Through study of Dick and Basu (1994) and Bloemer et al. (1998) it is revealed mostly researchers has focused on brand loyalty during their study of customer loyalty and very few work is done on the service loyalty dimension of customer loyalty. Bloemer et al. (1998) argued that the findings in the field of brand loyalty did not implement to service loyalty due to the following reasons:

- Service has direct association with the betterment of interpersonal relationships that is opposite in case of tangible products loyalty.

- In case of services, the deceptive risk pressure is very high.

- In the service perspective, immaterial attributes such as confidence and reliability are the key aspects to sustain the customer loyalty (Dick and Basu, 1994).

Dick and Basu (1994) sates the two dimensions of loyalty (relative attitude and repeat patronage behavior) and four classes of loyalty: loyalty (positive relative attitude, high repeat patronage), spurious loyalty (low relative attitude, high repeat patronage), latent loyalty (positive relative attitude, but low repeat patronage), and no loyalty (low on both dimensions). Salegna and Goodwin (2005) mentioned that if customer has industry relevant poor then an organization which has just better than "poor" could get a positive customer "relative attitude" score and high repeat patronage. Palmer et al. (2007) recommended [cited from Reichheld, 2003] that along with repetitive purchase pattern manager should have to focus to

what extent an organization's product or service is recommend to another customer by loyal customer. Readiness to recommend is the main way to judge the level of attitudinal customer loyalty.

Levesque and McDougall (1996) pointed out that by increasing loyalty, a retail bank:

- Its servicing cost can be reduced.

- Comprehensive knowledge about customers need and understanding of financial affairs.

- Will have an opportunity to enjoy heavy sell on hand and new products and services.

2.3 Trust

According to Errol et al. (2005) confidence in another party's capability and his/her performance is the level of trust. Stewart claims that internet failure in electronic banking may be due to the fact that customers would not have trust in electronic channels (adopted from Stewart, 1999). Therefore, trust plays an important role in loyalty. While some people stated repetitive purchasing behavior and consistency of his relationship with the organization is influenced by company's reputation. According to Yee et al. (2010) claimed that in e-banking, acquisition of the required skills in using a website by a customer could lead to habit formation. According to Ordoubari (1991) habit is the sum of various phenomena's and demonstrations of spiritual activities as well as material and physical. On the other hand, initially all demonstrations are voluntary or involuntary incidental and due to repetitions and various comparative fluctuations become habits. Further, unconscious influence i.e. physically or spiritually as well as active involuntary condition leads towards the formation of a permanent habit.

Trust is considered very crucial at the initial phase of building a relationship (Liang and Wang, 2006). Trust between customer and the service provider enables them to resolve many issues such as power conflicts and low profitability (Dwyer et al., 1987). So through fulfilling promises made with customers and consistently struggling hard for their interests levels of trust can be enhanced (Hocutt, 1998). Behavioral intentions such as trustworthiness are considered to be an important aspect of trust. According to Morgan and Hunt (1994) if business parties (e.g. customer and provider) genuinely trust each other, they feel the behavioral intention and they rely on each other and in the result this bonding leads towards company required outcome like increased willingness and likelihood of repurchase behavior.

Several authors in their literature reinforced the importance of the relationship between trust and loyalty (Morgan and Hunt, 1994; Auh, 2005; Ball, 2004). Two components of trust is described by Ball et al. (2004) as; credibility trust is one's perceived reliability of his business party and benevolence trust is established when one is genuinely concerned about the welfare of his business party and does not reflect an opportunistic behavior. They further argue in business to consumer (b2c) context, benevolence trust may be strong determinant of loyalty. Furthermore, benevolence trust may be critical in retail banking because the consumer may perceive it difficult to switch due to the powerful position of the firm (Auh, 2005; Ball, 2004).

However, Bloomer et al. (1998) found that reliability seems to be the most important influencing factor than behavioral loyalty in case of customer loyalty with banks.

Trust has strong contribution in the establishment of healthy and long-term customer relationships and it is strengthened as customers experienced with the same service provider increased (Gill et al., 2006). According to Auh (2005) due to lack of knowledge and a certain level of uncertainty, service process is unstandardized in financial services sector like bank industry: trust is positively linked to loyalty.

2.4 Customer Satisfaction

Survival of retail banks in highly competitive business market is only possible through preservation of loyal customer base and it is only possible by implementing such quality focused strategies that enhanced customer satisfaction and loyalty. Devlin (2001) stated that perceived difference in the services offered by competitors and customer bank is very little. According to Zaim et al. (2010) customer satisfaction is based on reliability, tangibility and understanding as well as Mengi (2009) added responsiveness and assurance as important factors. Kumar et al. (2010) and Lai (2004) found that assurance, empathy and tangibles are the important factor too. According to Levesque and McDougall (1996), competitive interest rate is important determinants of customer satisfaction in retail banking sector and a good "employee-customer" relationship can increase the satisfaction level as well as competitiveness and convenience also declared as the two important factors of customer satisfaction. On the other hand, Jamal and Naser (2003) study revealed that convenience and competitiveness are not the critical factors for all demographical groups.

The importance of customer satisfaction on behavioral loyalty is proven by studies that have identified a positive relation between customer satisfactions and repurchase intention (Walsh et al., 2008; Hellier, 2003; Bennett and Thiele, 2004). While Walsh et al. (2008) claimed that customer behavioral loyalty in the form of positive word-of-mouth is influenced by customer satisfaction with employees.

According to Hellier (2003) various factors are studied to analyze the effect of satisfaction on behavioral loyalty and some negative bonds such as, supplier monopoly, consumer inertia and limited customer information can bind the customer and supplier customer don't experience high level of satisfaction.

Customer satisfaction based loyalty is very essential (Anderson and Fornell, 1994; Lam and Burton, 2005) and it has been argued that experienced based customer satisfaction is the measure of overall evaluation of the organization (Anderson et al., 1990).

For instance, repetitive purchase behavior positively related to level of satisfaction (Labarbera and Mazursky, 1983) and levels of satisfaction have been positively connected with customer loyalty in the form of share of wallet and business-to-business setting (Keiningham and Perkins-Munn, 2003). Customer satisfaction is the customer's evaluation of a product or service in terms of whether that product or service fulfilled the consumer's needs and expectations. According to Zeithaml et al. (2006) failure to meet needs and expectations is resulted in the form of dissatisfaction with the product or service

Many authors denied the association between satisfaction and service quality while Cronin and Taylor (1992) study found the service quality as a determinant of satisfaction that further influences purchase intentions. Oliver (1993) and Spreng & Mackoy (1996) also suggested in their study that service quality leads to satisfaction. Other researchers do not share this view and propose that customer satisfaction and service quality can be examined at both the transaction-specific and global perspectives (Teas, 1993). And Fornell (1992) proved it in his study that he had conducted on the Swedish consumers that although customer satisfaction and service quality are equally important for all firms but satisfaction is more important for loyalty in industries like banks, mail order and automobiles.

2.5 Service quality

Highly experienced and successful electronics business units realized that success or failure not merely depends on their online presence or low price, but provision of high quality electronic services is the critical (Carnaet al., 2009). According to Ribinik (2004) electronic quality includes five dimensions including ease of usage, designing website, ordering, responding, and trust. Ward et al. (2009) defined the service quality in the banking context as a customer's faith and superior rating to the services provided by the bank. There are many service quality models have been constructed by considering different quality dimensions. For example, according to Gummesson (1992) service quality may be characterized by

humanistic quality and technical quality. Humanistic quality related to the extreme stress on customers, personnel, leadership and culture, whereas technical approach concerned with operations management, statistics and measurement methods. According to Lehtinen and Lehtinen (1991) found service quality is the crux of physical quality, interactive quality and corporate quality, as well as process and output quality. They divided quality into input and output, where the output consists of total service offering in terms of quality, and the input includes both tangibles and intangibles elements.

A positive relationship between perceived service quality and preferred and price indifference loyalty was advocated by Ruyter et al. (1998). Researchers conducted by Bahia & Nantel (2000) and Oppewal & Vriens (2000) proposed alternative models of perceived service quality for traditional banking. In the study of Lewis and Soureli (2006) in retail banking, service quality along with service attributes, perceived value, satisfaction and trust were important precursors of loyalty.

Tyler & Stanley (1999), investigated the large companies expectations towards the service quality provided by their banks and found some elements of operational quality: Reliability (Minimal Mistakes, Efficient mistake handling, Not needing to chase, Consistency, Confidence), Assurance (Technical knowledge of bank structure), Empathy (Understanding customer needs, Trust) and Responsiveness.
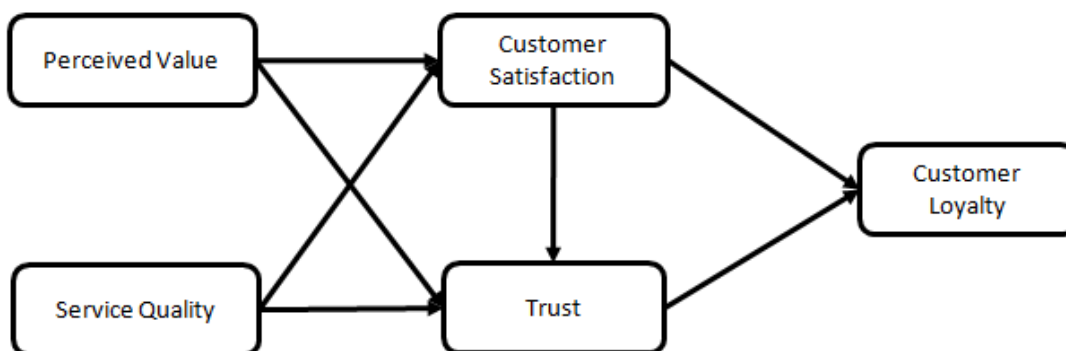
2.6 Research Model

Figure 1. Proposed Model of the Research

2.7 Hypotheses

H1: There is a positive relationship between Perceived Value and Trust.

H2: There is a positive relationship between Perceived Value and Customer Satisfaction.

H3: There is a positive relationship between Service Quality and Trust.

H4: There is a positive relationship between Service Quality and Customer Satisfaction.

H5: There is a positive relationship between Customer Satisfaction and Customer Loyalty.

H6: There is a positive relationship between Trust and Customer Loyalty.

H7: There is a positive relationship between Customer Satisfaction and Trust.

3. Methodology

3.1 Research Design

The current research is descriptive in its nature. Descriptive research can be explained as describing something, some phenomenon or any particular situation. Descriptive researches are those researches that describe the existing situation instead of interpreting and making judgments (Creswell, 1994). The main objective of the descriptive research is verification of the developed hypotheses that reflect the current situation. This type of research provides information about the current scenario and focus on past or present for example quality of life in a community or customer attitudes towards any marketing activity (Kumar, 2005).

3.2 Sample/Data

In order to collect the data for understanding the situation about customer loyalty in banking sector, a sample of 300 respondents will ask to participate in a self-administered questionnaire. The population for the current research is banking customers in Pakistan.

3.3 Instrument and Measures

The survey instrument of the current study address two major purposes: First is to analyze the relationship of different variables for customer loyalty in banking sector. Second, to collect information about the different characteristics of the respondents that can be used to understand the variations in different categories.

The survey instrument contains two sections. Section 1 includes different personal and demographic variables. This section will obtain the respondent's information about gender, age, income, education and status.

Section 2 includes the latent variables that are important in the current study. These variables includes Perceived Value, Service Quality, Customer Satisfaction, Trust and Customer Loyalty. This section of the study is developed based on the past literature and already used questionnaires (Table 3.1).

The scales of the study were adopted from the previous literature and published studies. The first three variables of the study were Perceived Value, Service Quality and Trust. These scales were taken from Selnes (1998). The next variable is Customer Satisfaction having three items was taken from Mon and Kim (2001). Customer Loyalty has five items and that was taken from the study by Ikhlaq and Ahmed (2011). The complete questionnaire attached at Appendix-A.

Table 3.1   Scales of the Study

No.	Variable	Items	Reference
1	**Perceived Value**	This bank's functions provide very good value for you.	Selnes (1998)
		This bank's performance meets your expectations.	
		You do your business with this bank because it works well.	
2	**Service Quality**	Bank staff are polite and friendly	Selnes (1998)
		Bank staff provide services efficiently	
		The service products satisfied my specific needs	
		The bank's consulting service satisfied my specific needs	
3	**Customer Satisfaction**	Overall I am satisfied with specific experience with the bank.	Mon and Kim (2001)
		I am satisfied with my decision to do business with this bank	
		Overall I am Happy with specific experience with the bank.	
4	**Trust**	I trust on this bank	Selnes (1998)

		I rely on this bank	
		This is an honest bank	
		This bank meets my expectations.	
5	**Customer Loyalty**	This bank would be my first choice.	**Ikhlaq and Ahmed (2011)**
		I consider myself to be loyal to this bank.	
		I recommend this bank to someone who seeks my advice.	
		I get good value for my money.	
		I say positive things about this bank to other people.	

3.4 Procedure

The questionnaire was distributed among 300 respondents in Multan, Rahim Yar Khan and Bahawalpur. These respondents are selected based on the criteria above mentioned. Before giving the questionnaire, the purpose of study and questions were explained to the respondents so they can easily fill the questionnaire with relevant responses. A total of 250 questionnaires were selected and rest of the questionnaires was not included in the further analysis due to incomplete or invalid responses. After collecting the completed questionnaires, these questionnaires were coded and entered into SPSS sheet for further analysis.

3.5 Reliability Analysis

Overall Cronbach's alpha of Online Shopping questionnaire items were 0.751 that is more than acceptable and recommended value 0.50 by Nunnally (1970) and 0.60 by Moss *et al.* (1998). This shows that all the 19 items were reliable and valid to measure the opinions of consumers towards Loyalty.

Table 3.4   **Reliability of Measurements Instrument**

Scales	Items	Cronbach Alpha
Perceived Value	3	0.719
Service Quality	4	0.797
Trust	3	0.850
Customer Satisfaction	4	0.746
Customer Loyalty	5	0.877

4. Results and Analysis

4.1 Profile of the Respondents

Personal and demographic information such as gender, age, income, education level, status and Current Bank are presented in the following table.

Table 4.1   **Profile of the Respondents**

Variable	Category	Frequency	Percentage
Gender	Male	187	74.8
	Female	63	25.2
Age	20-25 Years	95	38
	25-30 Years	88	35.2
	30-35 Years	41	16.4
	35-40 Years	21	8.4
	Above 40 Years	5	2
Income	Below 15000	75	30
	15000-25000	37	14.8

	25000-35000	60	24
	35000-45000	29	11.6
	45000-55000	27	10.8
	Above 55000	22	8.8
Education	Bachelor	40	16
	Master	184	73.6
	MS / M. Phill	26	10.4
	PHD	-	-
Status	Student	74	29.6
	Employeed	124	49.6
	Businessman	52	20.8
Current Bank	HBL	37	14.8
	ABL	83	33.2
	UBL	89	35.6
	Meezan	27	10.8
	Alfalah	7	2.8
	Bank Islami	7	2.8

4.2 Structural Equation Modeling and Hypothesis Testing

This section of the study finally tests the model after satisfying the requirements of reliability and validity.

4.2.1 Evaluation of the measurement model

AMOS 18.0 was used to check the goodness of fit of the online shopping model. According to this method we obtain a value of chi square statistics ($\chi2$) to compare the actual results

with the statistically generated expected results to confirm that there is a statistically significant difference between the both results (Cohen, Manion, & Morrison, 2007). The maximum likelihood parameter computes the associated degree of freedom and a probability value. This study yield a high significance level ($\chi2$ =9.350; degree of freedom = 9; probability level = 0.406). The appropriate distributional assumptions were met and the model is correct. The departure of the data from the model is significant at the p> 0.05 level.

4.2.2 Model fit Indices

To obtain CMIN/DF, Chi-square is divided by the degree of freedom. CMIN/DF is the minimum sample discrepancy divided by degrees of freedom. This model yields $\chi2$ = 9.350 and the degree of freedom = 9. Hence CMIN/DF (9.350/9) = 1.039 (p > 0.05), which indicates a favorable value (Cheung and Rensvold, 2002). In reference to model fit, numerous indicators of goodness-of-fit were used. Some common fit indexes are the Incremental Fit Index (IFI), Comparative Fit Index (CFI), Normed Fit Index (NFI), Non-Normed Fit Index (NNFI, also known as TLI), and root mean square error of approximation (RMSEA). In general, if the vast majority of the indexes indicate a good fit, then there is probably a good fit.

Traditionally, the value of Incremental Fit Index (IFI) should be equal or greater than 0.9 to accept the model (McDonald & Ho, 2002). The IFI of this model equals 0.998. Comparative Fit Index (CFI) indicates the proportion in the improvement of the overall fit of the study model relate to a null model (Bentler, 1983). The null model is an independence model in which the observed variables are assumed to be uncorrelated. The critical value for CFI is 0.9 or above in evaluating model fit (Bentler, 1990; Thompson, 2000). The CFI of this model equals 0.998 so the relative overall fit of the study model is 99% better than that of the null model estimated with the same sample data. Goodness Fit Index (GFI) of model was 0.990, Adjusted Goodness of Fit (AGFI) was 0.968 means good model fit, Comparative fit index (CFI) was 0.998 and Tucker-Lewis coefficient (TLI) was 0.996. CFI and TLI scores are close to 1.0 where a value of 1.0 as suggested by (Bentler, 1992; Bentler and Bonett, 1987) represents a perfect fit. While, RMSEA is based on the non-centrality parameter and is provided for fit index precision within construct of confidence intervals. The suggested value is 0.05 or below/good fit; below 0.08/fair fit. The current study had a RMSEA of 0.013, indicating a good fit.

Table 4.2 shows both the results of indices for the current model and suggested guidelines for evaluating model fit (Arbuckle, 2006; McDonald & Ho, 2002; Bentler, 1992). Modification indices do not provide any indication of misfit of the structural model suggesting that there is no need for model modification or inclusion of any new path between the constructs of the model.

Table 4.2   Results of Model Fit indices for the Measurement model

Model Fit Indices	Values	Suggested Guidelines
Absolute Fit Measures		
CMIN ($\chi2$)	9.350	
Df	9	
CMIN ($\chi2$)/df	1.039	Less than 3.0
GFI	0.990	equals/be greater than 0.9

RMSEA	0.013	0.05 or below / Good fit; below 0.08 / Fair fit
Incremental Fit Measures		
CFI	0.998	equals/be greater than 0.9
AGFI	0.968	equals/be greater than 0.9
IFI	0.998	equals/be greater than 0.9
NFI	0.961	equals/be greater than 0.9
RFI	0.908	equals/be greater than 0.9
TLI	0.996	equals/be greater than 0.9

Source: Arbuckle (2006), Mc Donald & Ho (2002), Bentler (1992)

4.3 Hypothesis Testing

4.3.1 Perceived Value, Trust and Customer Satisfaction

Regression Analysis of the Customer Loyalty model shows that there is a significant positive relationship between Perceived Value and Trust with (β=0.490) and ($p < 0.01$). The results suggest that the Perceived Value contribute almost 50% to Trust.

The regression analysis of the study shows that there is a significant positive relationship between Perceived Value and Customer Satisfaction with (β=0.265) and ($p < 0.01$). This means the Perceived Value contributes more than 26% to Customer Satisfaction. The results of the study support H1 and H2.

4.3.2 Service Quality, Trust and Customer Satisfaction

While considering the significance between Service Quality and Trust, the results of the current study shows significant relationship between these two variables with (β=0.156) and ($p < 0.05$).

According to the results, there is a significant relationship between Service Quality and Customer Satisfaction with (β=0.123) and ($p < 0.05$). Based on these results, we accept H3 and H4 and conclude that the study find significant relationship of Service Quality with Trust and Customer Satisfaction.

4.3.3 Customer Satisfaction and Trust

Regression estimates results show that Customer Satisfaction found significantly related with Trust. There is a significant positive relationship between Customer Satisfaction and Trust with (β= 0.137) and ($p < 0.05$).

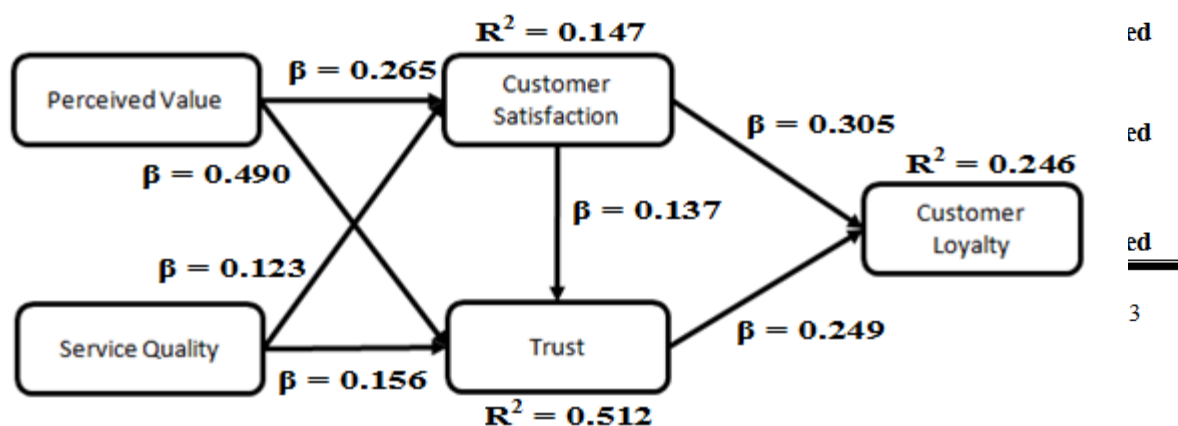4.3.4 Customer Satisfaction, Trust and Customer Loyalty

According to the results of the study, the both variables of Customer Satisfaction and Trust have a significant positive relationship with Customer Loyalty. Specifically, the Customer Satisfaction has a significant positive relationship with (β=0.305) and ($p < 0.01$). That means the Customer Satisfaction contribute more that 30% to Customer Loyalty. The regression

results of Trust with Customer Loyalty is also significant with (β=0.249) and ($p < 0.01$). Results of the current study validate the H6 and H7.

Table 4.3 summarizes the regression results of the study and Figure 4.1 shows the graphical presentation of the structural model.

Table 4.3   Regression Results

Hypothesis	Model Variables			Estimate	S.E.	C.R.	P	Results
H1	Trust	←	PV	0.490	0.066	7.465	***	Supported
H2	Cus Sat	←	PV	0.265	0.069	3.846	***	

5. Discussion

The main objective of the current study is to find the interrelationships between perceived value, trust, service quality, customer satisfaction and customer loyalty in the banking sector in Pakistan. The study sought to identify the most important attributes in bank settings, which may be used to review characteristics of the banks as experienced by customers.

The perceived service quality has been traditionally defined as one of the consumer satisfaction´s major determinants (Cronin and Taylor, 1992; Oliver, 1993; Rust & Oliver, 1994; Anderson & Fornell, 1994; Bloemer et al., 1998; Coruana, 2000). Other studies also argue that is highly related to service quality (Bolton and Drew, 1991; Cronin and Taylor, 1992; Taylor and Baker, 1994). There are also evidence that this relation is valid in a context of Banking, for instance in the study conducted by Floh & Treinblmaier (2006), overall satisfaction was positively affected by Service Quality.

The results of our study show that the there is a very high correlation between the perceived Quality and customer Satisfaction, with lack of Discriminant validity. According to Dabholcar (1995) these two constructs may overlap in the customer minds when a long-term relation exists. Reminding, 50% of the respondents in our sample have been working with the main online bank for about 4 to 6 years and 21,4 %, for about 7 to 9 years. The same results were obtained for Perceived value, in fact no discriminant validity was also found. Our results suggest that the Quality of the Bank services has a direct impact on Trust. Amongst the many factors which have been pointed determinants for the Quality of the website, for business customers the Reliability and Assurance are extremely important and have a strong impact on building Trust. The decision makers of the companies seem to have a special concern in issues like the trustworthy of the online bank and with the accuracy of the performance of the online bank, this means that it´s important that the online bank keeps the

records of the company free of errors.

Therefore the bank must build a strong brand in order to signal competence to its business customers so that they can rely completely upon its capability and trustworthiness (Floh and Treiblmaier, 2006; Yousafzai et al., 2005). Our results also found a significant impact of Trust on Loyalty, consistent with previous studies. A number of researchers have advocated that trust is fundamental in developing customer loyalty (Moorman, Deshpande, & Zaltman, 1993; Morgan & Hunt, 1994). The importance of trust in explaining loyalty is also supported by authors like Lim and Razzaque (1997), Garbarino and Johnson (1999), Chaudhuri and Holbrook (2001), Singh and Sirdeshmukh (2000), and Sirdeshmukh, Singh, and Sabol (2002). However, in a market with suitable alternatives lack of trust might lead to negative loyalty. While determining the imperatives of 'how to win customers' trust' the service provider(s) must focus on both present and future time frame. The construct of trust contains belief in the brand or company, which provides the customers an assurance of positive outcomes not only for the present but also for the future. As illustrated in the literature, the customers must be led to believe that the company will not behave opportunistically for sake of its own interest; otherwise they will switch their allegiance (Akbar and Parvez, 2009).

Bowen and Chen (2001) pointed out that a small increase of customer satisfaction leads customer loyalty dramatically. The current study finds that customer satisfaction has a large positive correlation with customer loyalty in the retail banking sector in Pakistan. Kandampully and Suhartanto (2000) supported this relationship. The strong positive correlation of customer satisfaction and customer loyalty means that the bank customers will recommend the bank to other people. As a consequence, the banks can be assured of a loyal and stable customer base, thereby reducing the cost. Cohen et al. (2007) found that a loyal customer takes less of the company's time during transactions and are less sensitive to price changes. Recalling the Research Question No 3 Reichheld (2006) stated that companies with the highest customer loyalty typically grew revenues at more than twice the rate of their competitors. Therefore the current research model will contribute in the retail banking sector in Pakistan by using a loyal customer base.

Furthermore, if a customer is satisfied, he will tend to value the perceived quality more positively in order to be congruent with himself and to avoid dissonance. Our findings have several managerial implications. The impact of satisfaction on loyalty is considerably stronger than the Trust. This implies that banks should place greater emphasis on achieving high levels of customer satisfaction than on creating Trust. This is because, on the one hand, loyalty is based mainly on satisfaction, and on the other, Trust present the additional advantage of the ease of attracting new customers when these are aware of the existence of such costs, and the possibility that outside forces may eliminate the barriers erected by switching costs. Nevertheless, the direct positive relationship between trust and loyalty may imply that banks could undertake actions that increase trust for their customers, such as establishing preferred customer programs, which can also contribute to increasing customer satisfaction. On the other hand, while there is a direct relationship between overall service quality and satisfaction response, the banks should not overlook the importance of quality, whenever the quality improvement efforts are oriented to meet the customers' needs.

6. Limitations and Future Research

The current study presented exhibit limitations that should be considered. The limitations are as follows:

The sample size of the current study is 250. This sample size meets the minimum requirement. The researcher may use a bigger sample size to find out more about service quality, customer satisfaction and customer loyalty in the retail banking settings in Pakistan. Other variables may influence customer decision making process in the retail banking industry, such as price, convenience, interest rates etc.

This study covers the customers of Government and Private banks in Pakistan. The Foreign banks that have a role in the retail banking industry in Pakistan were excluded from this

study.

Future research should concentrate on a bigger sample size and all types of retail banks [including foreign banks] in Pakistan. In addition, more decision making variables should also be considered in the research model.

In addition, in this study, we have not measured and analysed the effect of some crucial and significant factors such as culture, income, geography, education and demography on customers' loyalty, so future investigate could analyze the influence of these factors on customers' loyalty.

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