



The Mediating Role of Perceived Value on the Relationship between Service Quality and Loyalty: The Private Banking Case in Myanmar

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Abstract

This study aimed to investigate the impacts of service quality on loyalty and the mediating effect of perceived value on the relationships between service quality dimensions and loyalty of private bank users in Myanmar. Specifically, this study emphasized five dimensions of service quality, perceived value and loyalty. The quantitative research approach was used to investigate 489 valid responses collected via a questionnaire survey from the users of a private bank in Myanmar. Multiple regression analysis was used to analyze the data. This study found that three dimensions of service quality, reliability, assurance, and empathy positively and significantly impact on loyalty and perceived value mediates the relationship between each dimension of service quality and loyalty. However, tangibles and responsiveness dimensions of service quality did not find to have significant effect on loyalty of bank customers. The findings could contribute to the service loyalty context in the aspect of service quality and loyalty. Moreover, the findings could be applied to the development of strategies to make customers satisfied and remain with the company and sustain their loyalty.

Keywords: Service Quality, Perceived Value, Loyalty, Banking

I. INTRODUCTION

The competition among the firms are increasing continuously and there has been a rapid shift in the way these business organizations deliver their products or services to the market (Bhat, Darzi, & Parrey, 2018). Production-oriented organizations, which previously focused on increasing production and reducing costs, are shifting their focus towards the customer (Hsu, 2018). This is especially true for the service companies that want to raise permanent long-term relationship with the customers, as they have to interact with the customer (Markovic, Iglesias, Singh, & Sierra, 2018). The financial organizations, such as banks, are striving to improve their process by affiliating with customers and try to survive and compete in the market (Bhat, Darzi, & Parrey, 2018). Competitions among the banks become intense and, in order to survive and gain a competitive advantage, banks are now shifting their focus on the loyalty of their customers (Leninkumar, 2017). In addition, many studies have been focused on the predictors for the loyalty for a firm (Eklof, Podkorytova, & Malova, 2018; Kamat, Pilla, Pech, Mello, & Chang, 2017; Nyarku, et al., 2018; Irshad, Rahim, & Khan, 2017).

As the importance of quality has been grown, the attentions of many customers and researchers on quality are also grown (Joudeh & Dandis, 2018; Hashem & Ali, 2019). In addition, service quality becomes the most important aspects in service field (Joudeh & Dandis, 2018). As the organizations want to get more satisfaction, which can lead better loyalty, customers are now recognizing the quality of service they receive which led the organization to get more attention (Joudeh & Dandis, 2018). Such a loyal customer contributes to increase the company's profitability and market dominance by recommending friends and family (Hashem & Ali, 2019). Competitive pressure ensures that entrepreneurs have to focus on better

product quality or the quality of services in order to get customer loyalty (Kamat, Pilla, Pech, Mello, & Chang, 2017). Many researchers have been focused on the impact of service quality on customer loyalty in the banking sector (Alafeshat & Alola, 2018; Eklof et al., 2018; Kamat et al., 2017). However, only a limited number of studies has been done in Myanmar banking context. In order to fill this gap, this study tries to explain the impact of service quality on customer loyalty in Myanmar banking sector.

On the other hand, the relationship perspective of marketing has had a profound impact on the customer service business. The new focus on customer profitability revealed that the effective management of satisfied and faithful customers gains the company an improvement of economic and competitive situation (Hong, Zheng, Wu, & Pu, 2019). Thus the delivering of superior customer value has become vital for a company to maintain long-term relationships with their customers (Ivanauskiene, Auruškevičiene, Škudiene, & Nedzinskas, 2012). However, as the transactions between banks and their customers involve an exchange of complex and often intangible information, it may be difficult for customers to understand the value of banks' service (Ashton & Pressey, 2004). The concept of perceived value has been emphasized by researchers and practitioners considerably due to its ability of predicting customer behavior (Day, 2002; Holbrook, 1994; Woodruff, 1997). In this regards, many researchers have been emphasized on the influence perceived value on customer loyalty (Chou, Kohsuwan, & Thanabordeekij, 2019; Anwar, Min, & Dastagir, 2019; Adly, 2019). However, few researches have been done in this area for Myanmar banking context. In order to fill this gap, perceived value is tested as the another predictor for customer loyalty in Myanmar banking sector.



Myanmar banking sector's contribution to GDP is relatively low in ASEAN. Banking assets-to-GDP ratio is only 49% and this is the lowest among ASEAN countries (Berger, 2016). In addition, only 25.6% of the total population in Myanmar has bank account in 2017 (The World Bank, 2018). However, this amount is low in the region but the amount itself grown from 22.6% in 2014 (The World Bank, 2018). The banking sector in Myanmar is the fastest growing sectors in the region (Berger, 2016). In this market, though there are many players in the market, only top 3 banks, Kanbawza Bank (KBZ Bank), Ayeyarwaddy Bank (AYA Bank), and Co-operative Bank (CB Bank), are primarily driving the market (Berger, 2016). In this study, the impact of service quality of a private bank on loyalty and the mediating role of the customers' perceived value on the relationship between service quality and loyalty is studied.

The objectives of this research are

1. To determine the impact of service quality dimensions on loyalty.
2. To test the mediating effect of perceived value on the relationships between service quality dimensions and Loyalty.

II. LITERATURE REVIEW

As the competition becomes intense, service quality becomes a very important marketing tool for companies. Customers who experienced a quality service tend to share their experience with others leading to an expanded customer base and that such customers tend to become loyal customers (Joudeh & Dandis, 2018). However, customers who experienced a bad service tend to share that experience with others and this leads to reduce purchase and customer base (Harrison, 2019). By providing excellent service quality, a business can create a competitive advantage to distinguish itself from other organizations (Lomendra, Sharmila, Roubina, Ganess, & Zabeen, 2019). Thus,

research on the measurement of and improvement of service quality, has become essential (Zeithaml & Parasuraman, 2003). Service quality is defined as the gap between customers' expectations about the service that they have perceived and actually received (Zeithaml & Parasuraman, 2003). Service quality is the overall assessment of service by the customers (Eshghi, Roy, & Ganguli, 2008), or the degree to which a service product meets the needs or expectations of customers (Asubonteng, McCleary, & Swan, 1996).

Measurement of the quality of service is critical as it gives the opportunities to compare between before and after changes, aware the quality issues, and facilitate the development of standard delivering service (Shahin, 2005; Afthanorhan, Awang, Rashid, Foziah, & Liza, 2019). For the purpose of the measurement of the quality of service, different authors proposed different models. Cronin and Taylor, (1992) proposed SERVPERF model measuring the quality of service based on the overall feeling of customers. In addition, Teas (1993) suggested the Evaluated Performance model which measure the difference among the customers' perception of firm's performance and service quality dimensions rather than the customer's expectation. Moreover, by studying four types of service, credit card car service, retail banking, repair and maintenance of electrical devices, and telephone service, Parasuraman, Zeithaml, and Berry, (1985) proposed a model for measuring the quality of service and called SERVQUAL.

According to SERVQUAL, the quality of service is the difference between the expectations held by customers and their perceptions about the service they received from the firm (Parasuraman et al., 1985). For the measurement of the quality of service, ten dimensions were developed in SERVQUAL model (Parasuraman et al., 1985). However, as these dimensions were overlapping, these were reduced to

five dimensions (Parasuraman et al., 1985; Parasuraman, Zeithaml, & Berry, 1988). These five dimensions include tangibles, reliability, responsiveness, assurance and empathy (Parasuraman et al., 1985).

Many studies had been made on the influence of service quality on loyalty (Chou et al., 2019; Priyo, Mohamad, & Adetunji, 2019; Aye & Kohsuwan, 2019; Ullah, Raza, & Chander, 2016; Putri, Wahab, & Shihab, 2018). Chou et al., (2019) studied the impact of SERVQUAL dimensions on customer satisfaction and loyalty. Priyo et al., (2019) also studied the impact of service quality on loyalty in hotel industry. For the banking industry, Aye and Kohsuwan (2019) studied the influence of corporate social responsibility and service quality on customer loyalty outcomes. In addition, Ullah et al. (2016) studied the impact of service quality on customer loyalty and found the significant positive relationship between the two variables. In addition, Putri et al. (2018) found that service quality positively influences on loyalty. This paper used SERVQUAL dimensions to investigate the service quality's impact on customer loyalty and, accordingly, the following hypotheses was generated.

H_{1a}: Tangibles dimensions is positively and significantly related to loyalty.

H_{1b}: Reliability dimensions is positively and significantly related to loyalty.

H_{1c}: Responsiveness dimensions is positively and significantly related to loyalty.

H_{1d}: Assurance dimensions is positively and significantly related to loyalty.

H_{1e}: Empathy dimensions is positively and significantly related to loyalty.

On the other hand, perceived value concept is necessary when relationship marketing is to be established in order to gain customer loyalty (Berry, 1983). It is commonly defined as a trade-off between perceived benefits and perceived costs (Lovelock,

2000). There is no single definition of perceived value as it can be analyzed using a unidimensional measure or a multidimensional scale (Chen & Chen, 2010; Sánchez-Fernández & Iniesta-Bonillo, 2007; Hallak, Assaker, & El-Haddad, 2018). However, much of previous studies concluded that perceived value drives loyalty (Rahi & Ghani, 2016; Xin, Changzheng, & Bing, 2016; Faryabi, Kaviani, & Yasrebdoost, 2012; Hasan, Kiong, & Ainuddin, 2014). Rahi and Ghani (2016) found that internet banking and customer perceived value have a significant impact on customer loyalty. In addition, most of the dimensions of perceived value, such as functional value, perceived safety, and service value are affecting customer loyalty (Xin, et al., 2016). Faryabi and colleges also found that there was a statistically significant and positive correlation between each of the marketing mix and customer value and as a result between customer perceived value and customer satisfaction. Another study also found that perceived value and trust have significant impact on the loyalty of banking customers (Hasan, et al., 2014). This discussion highlights the studies on perceived value and loyalty in banking sector.

In addition to the influence of perceived value on loyalty, previous studies have also been emphasized the influence of service quality on perceived value. Most of these studies treated perceived value as a mediating factor between service quality and customer loyalty (Noyan & Şimşek, 2014; Abdelfattah, Rahman, & Osman, 2015; García-Fernández, et al., 2018). Therefore, in order to test the mediating effect of perceived value on the relationship between SERVQUAL dimensions and loyalty, the following hypotheses were generated.

H_{2a}: The relationship between Tangible and Loyalty is mediated by perceived value

H_{2b}: The relationship between Reliability and Loyalty is mediated by perceived value

H_{2c}: The relationship between Responsiveness and Loyalty is mediated by perceived value

H_{2d}: The relationship between Assurance and Loyalty is mediated by perceived value

H_{2e}: The relationship between Empathy and Loyalty is mediated by perceived value

Based on the research objectives and hypotheses generated from the above discussion, the conceptual framework for the study is illustrated in Figure 1.

III. RESEARCH METHODOLOGY

Exploratory research was used in the study. A draft questionnaire was prepared based on the previous literature, and this questionnaire was modified

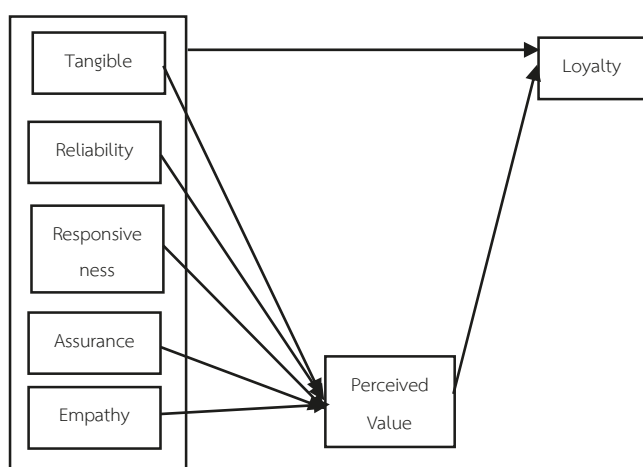


Figure 1 Conceptual Framework

according to the results of Item Objective Congruence (IOC) test. For the pilot study, this modified questionnaire was then translated from English to Myanmar using back-translation technique and surveyed 41 respondents. Reliability Analysis was used as preliminary analysis for the pilot study. Based on the results of the pilot study, the questionnaire was refined for the main data collection. For the purpose of the main study, 650 questionnaires were distributed to private bank users in Mandalay, Myanmar and out of which 547 questionnaires were returned. Therefore, the

response rate was 84.15% and after eliminating incomplete responses and responses with outliers, 489 qualified responses were used for the study. In the main study, after analyzing scale reliability with Cronbach's Alpha, regression analysis was used to test the hypotheses specified in the model.

A. Research Measurement

In order to test the influence of service quality on loyalty and the mediation role of perceived value in the relationship between service quality and loyalty, SERVQUAL model developed by Parasuraman et al., (1988) was used in testing the influence of service quality on loyalty. For the measurement of the research variable, scale items were adopted from the various previous studies. For the SERVQUAL variables, scales items were adopted from the work of Parasuraman, Zeithaml, and Berry (1988). Perceived value and loyalty variables were treated as unidimensional measures and adapted from Brady et al. (2005) and Zeithaml, Berry, and Parasuraman (1996) respectively.

B. Reliability Analysis

For the internal consistency of the scale items used in the study Cronbach's Alpha analysis was used. Various authors suggested that the value of Cronbach's Alpha above 0.7 means good reliability (Zikmund, Babin, Carr, & Griffin, 2010). However, Hair, Black, Babin, and Anderson (2014) suggested that Cronbach's Alpha value 0.6 can be used in exploratory research. In this study, Cronbach's Alpha values range from 0.619 to 0.860, and all these values were aligned with the criteria set by Zikmund et al. (2010) and Hair et al. (2014).

Table 1 Reliability Analysis for the Research Variables

Sr. No.	Research Variables	Number of Items	Cronbach's Alpha
1.	Tangibles	4	0.752
2.	Reliability	5	0.710
3.	Responsiveness	4	0.741
4.	Assurance	4	0.685
5.	Empathy	5	0.754
6.	Perceived Value	3	0.619
7.	Loyalty	5	0.860

n=489

IV. ANALYSIS AND DISCUSSIONS

A. Testing the relationship between SERVQUAL dimensions and loyalty

As shown in Table 2, the findings indicate that three out of five dimensions of SERVQUAL, reliability, assurance, and empathy, positively and significantly relate to loyalty. However, two dimensions of SERVQUAL, tangibles, and responsiveness, are not significantly related to loyalty. In addition, Table 2 shows that 30.8% (R-square = .308) of variation in loyalty is explained by SERVQUAL variables. Among these variables, Reliability dimensions of SERVQUAL have greatest impact on loyalty, the value of beta is 0.221, which is the largest among other variables.

Table 2 Multiple Regression Analysis: SERVQUAL Dimensions and Loyalty

	Coefficients (Beta)	t	P	R-Square	F	F-sig
Tangibles	.043	0.980	.327	.308	42.919	.000
Reliability	.221***	3.834	.000			
Responsiveness	.091	1.640	.102			
Assurance	.139**	2.533	.012			
Empathy	.194***	4.181	.000			

a. Dependent Variable: Loyalty

*** = $p < 0.001$, ** = $p < 0.05$

B. Testing the mediation effects of perceived value on the relationship between SERVQUAL dimensions and loyalty

To test the mediation effects of perceived value on the relationship between SERVQUAL dimensions and loyalty, percentile bootstrap confidence interval method was used, as Hayes and Scharkow (2013) suggested as a good compromise test for testing mediation analysis. According to Hayes and Scharkow (2013), when the product of the regression coefficient of independent variables on mediator variable, and that of mediator variable on dependent variable is zero, there is a mediation effect if the confidence interval contain zero, otherwise, there is no mediation effect. On the other hand, when the product of the regression coefficient of independent variables on mediator variable, and that of mediator variable on dependent variable is not zero, there is a mediation effect if the confidence interval do not contain zero, if not, there is no mediation effect. In this study, standardized coefficients for the regression path between SERVQUAL dimensions and perceived value, and perceived value and loyalty, and corresponding bootstrap confidence intervals were computed. In Table 3, the coefficients of regression parts, and bootstrap confident intervals were presented.

As shown in Table 3, all the products of the regression coefficient of independent variables on mediator variable, and that of mediator variable on dependent variable were not zero, and all the bootstrap confidence intervals did not contain zero. Therefore, perceived value had mediation effects on the relationship between each of the SERVQUAL dimensions and loyalty and accordingly, hypotheses such as H_{2a} , H_{2b} , H_{2c} , H_{2d} , and H_{2e} were supported.

Table 3 Mediation Analysis

	x → m	m → y	Direct effect	Indirect effect	Total effect	BootLLCI	BootULCI
Tangibles	.492***	.535***	.164	.263	.427	.1874	.3479
Reliability	.648***	.345***	.474	.224	.698	.1389	.3115
Responsiveness	.379***	.423***	.303	.160	.464	.1123	.2139
Assurance	.556***	.395***	.375	.219	.595	.1461	.2988
Empathy	.323***	.452***	.333	.146	.479	.1014	.1952

*** = $p < 0.001$

In addition to the percentile bootstrap confidence interval method, the methodology suggested by Baron and Kenny, (1986) was also used to test the mediating effect of perceived value on the relationship between SERVQUAL dimensions and loyalty. Preacher and Hayes, (2004) indicated that the majority of mediation analyses are guided by the procedures outlined by Baron and Kenny (1986). In addition, previous literature in the field of service quality such as Chang and Chen, (1998), Lasser, Manolis, and Winsor, (2000), Kang and James, (2004), and Chumpitaz and Paparoidamis, (2004) have employed this method for testing the effect of mediating variables. According to Baron and Kenny (1986), mediation occur when four conditions are met. First, independent variable (SERVQUAL dimensions) significantly effects the mediator (perceived value). Second, the mediator (perceived value) significantly effects the dependent variable (loyalty). Third, the independent variable (SERVQUAL dimensions) has significant effect on dependent variable (loyalty) in the absece of the mediator (perceived value). Fourth, when the mediator (perceived value) is added to the model, the effect of independent variable (SERVQUAL dimensions) on the dependent variable (loyalty) is significantly reduced. Figure 2 – 6 presents these mediation results.

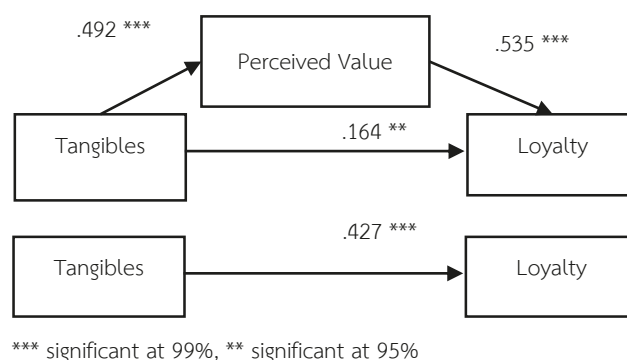


Figure 2 Path Analysis for Tangibles and Loyalty

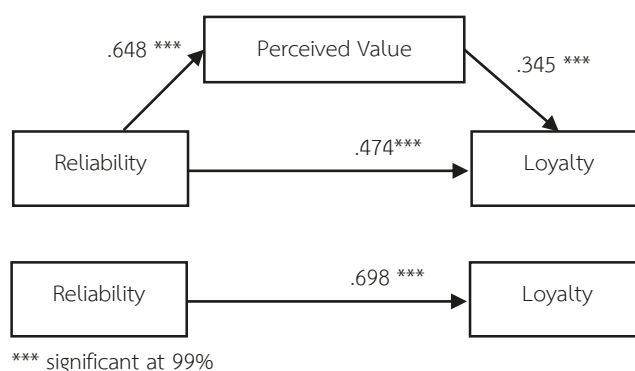


Figure 3 Path Analysis for Reliability and Loyalty

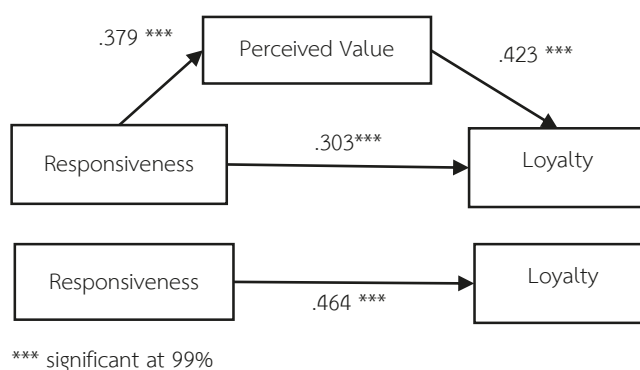


Figure 4 Path Analysis for Responsiveness and Loyalty

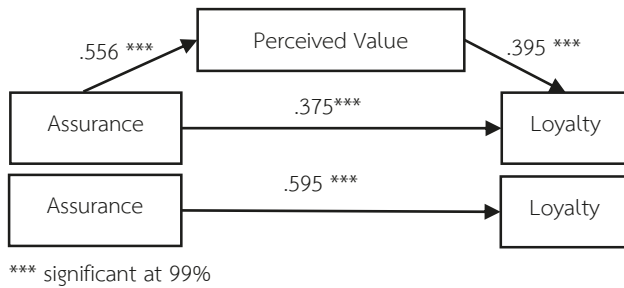


Figure 5 Path Analysis for Assurance and Loyalty

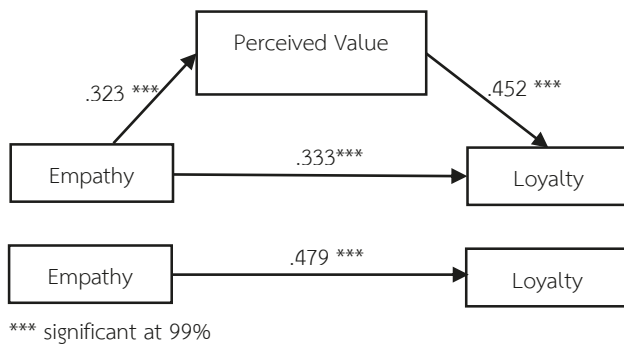


Figure 6 Path Analysis for Empathy and Loyalty

Figure 2-6 presents the path analysis on perceived value mediating on the relationship between each dimensions of SERVQUAL, tangibles, reliability, responsiveness, assurance, empathy, and loyalty. All the dimensions of SERVQUAL have significant positive direct influence on loyalty. As for the indirect effect, the coefficient of each dimensions of SERVQUAL positively and significantly relates to perceived value and perceived value positively and significantly relates to loyalty. The results prove that perceived value is partially mediating the relationship between each dimensions of SERVQUAL and loyalty.

C. Discussion

This study investigated the impact of SERVQUAL dimensions on loyalty and the mediation effects of perceived value on the relationship between each dimension of SERVQUAL and loyalty. It was found that three out of five dimensions of SERVQUAL dimensions significantly influence on loyalty. According to the

results of multiple regression analysis, Reliability dimensions of SERVQUAL positively influence on loyalty. This finding was aligned with the results of Abulgasem, Janic, Filipovic, and Gligorijevic (2011), Vasumathi and Subashini (2015), and Adebisi and Lawal (2017). In addition, Assurance dimension of SERVQUAL was also found to have significant impact on loyalty which was aligned with the findings of Abdullah and Hilmi (2014). This study also found that Empathy dimension of SERVQUAL significantly influenced on loyalty. Similar result was also found in the previous literature such as Kheng, Mahamad, Ramayah, and Mosahab (2010), Aghaeia, Mostafapourb, and Rezaeib (2013) and Abdullah and Hilmi (2014). However, due to the emergence of self-service terminals, and advance in information technology, tangible lost its importance as a measurement for customer loyalty (Kheng, Mahamad, Ramayah, & Mosahab, 2010). This study revealed that tangibles dimension of SERVQUAL did not significantly impact on loyalty of Myanmar banking customers. This finding was aligned with the findings of Karunaratna (2014). In addition to tangibles, Responsiveness dimensions of SERVQUAL insignificantly influenced on loyalty. This result was aligned with the finding of Aye and Kohsuwan (2019), Kheng et al. (2010), Jun and Cai (2001), Diaz and Ruiz (2002), and Abdullah and Hilmi (2014).

The second part of the research objective is to investigate the mediating effects of perceived value on the relationship between the dimensions of SERVQUAL and loyalty. Separate models were tested to investigate the mediating effects and results were shown in Table 3. The results of the mediation analysis show that when perceived value is mediated between each dimensions of SERVQUAL, tangibles, reliability, responsiveness, assurance, and empathy, and loyalty. In addition, testing of mediation effect using the method suggested by Baron and Kenny (1986) and their reults were shown



in Figure 2 – 6. These results show that perceived value mediate the relationship between each dimensions of SERVQUAL and loyalty. In other words, perceived value had mediation effect on the relationships between each dimensions of SERVQUAL and loyalty of banking customers in Myanmar.

V. CONCLUSIONS

A. Theoretical Contribution

This study contributes to service quality literature from different perspectives. First, this study fulfill theoretical gaps that present in service quality literature and gain and understanding of the relationship among SERVQUAL dimensions, perceived value and loyalty. The finding of this study reveals that SERVQUAL dimensions are, in some way, the drivers of bank customers' loyalty. The second contribution would be the empirical evidence that the relationships between the SERVQUAL dimensions and loyalty are fully or partially mediated by Perceived Value of customers. This can provide better understanding of a variable that affect the relationships between SERVQUAL dimensions and loyalty.

B. Managerial Implications

The results of the study can be applied in real business situation. The results show that Reliability dimension of SERVQUAL positively and significantly influence on loyalty of bank customers. This can be implied that by providing the service dependably as promised, the bank can obtain the loyalty of its customers. In addition, Assurance dimension also has a positive and significant influence on loyalty. Therefore, as a bank, knowledge and courtesy of its employees can generate loyalty from its customers. Empathy dimension also positively and significantly influence on loyalty. This can be implied that by caring, and giving

individualized attention to its customers, bank can gain loyalty of its customer.

In addition to the direct effect of SERVQUAL dimensions on loyalty, the mediating effects of Perceived Value on the relationship between SERVQUAL dimensions and loyalty has also studied. The result of the study shows that when perceived value of customers is mediated, all the dimensions of SERVQUAL positively and significantly influence on loyalty. This can be implied that when the bank considered the value perceived by the customers, all the SERVQUAL dimensions are important for the loyalty of its customers. Therefore, banks should take a good care of all the dimensions of tangibles, reliability, responsiveness, assurance and empathy.

C. Recommendation for future research

The findings of the study reveals several suggestions for future research. First, Researchers should identify more dimensions for service quality, other than SERVQUAL, as this study found that some dimensions of SERVQUAL don't have significant impact on loyalty. Future researchers should also consider where the study was done. As Myanmar is a developing country with emerging customer knowledge, the results of the study could be quite different from other market settings, especially from developed ones.

Second, for the analysis of the data, this study mainly used multiple regression analysis. Future researches should use multiple statistical techniques to explore more about the consistency of the influence of service quality dimensions on loyalty and the mediation effect of perceived value on the relationship between service quality and loyalty.

Third, for more understanding of the impact of service quality on loyalty and the mediation effect of perceived value on the relationship between service

quality and loyalty, future research should emphasize on other industries other than banking industry.

D. Conclusion

This study aimed to investigate the impact of service quality dimensions on loyalty and the mediating effect of Perceived Value on the relationships between service quality dimensions and loyalty. In accordance with the research objectives, 10 hypotheses were tested by using multiple regression analysis. Out of 10 hypotheses, 8 hypotheses were accepted. According to the result of the study, 3 out of 5 dimensions of SERVQUAL had positive and significant effect on loyalty of bank customers. However, the results showed that, when customers' perceived value was mediated, all the dimensions of SERVQUAL had positive and significant effect on loyalty of bank customers.

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