

INTI INTERNATIONAL UNIVERSITY

MASTER OF BUSINESS ADMINISTRATION

SERVICE QUALITY, TRUST AND CUSTOMER SATISFACTION ON CUSTOMER LOYALTY: A STUDY OF BANKS IN MALAYSIA

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ABSTRACT

Conventional banking channels have been established including Automated Teller Machines (ATM), phone banking, and online banking, as well as increasingly mature financial markets and international competition have required banks to focus on the importance of customer loyalty. Therefore, the shifting position of financial sector together with the dynamic market have aroused researchers' interest. It is of the essence that banks determine their level of customer satisfaction, complaint handling and customer loyalty to improve their competitive strength and identify problems to why customer churn or switch. It is expected that this study could contribute to the future banks practice and adopted to achieve customer loyalty level. The aim of the research is to test the extent of service quality level, complaint handling level, trust level and customer satisfaction level impact on customer loyalty level in Malaysian banks. A quantitative study was structure using a survey with a target of 250 respondents, then using Statistical Package for Social Science (SPSS) to analyze the data. The results showed service quality, trust and customer satisfaction have positive relationship with customer loyalty in Malaysian banking sector. However the complaint handling showed no relationship with customer loyalty, while customer satisfaction is the most important factor to influence customer loyalty.

Keywords: Service Quality, Complaint Handling, Trust, Customer Satisfaction, Customer Loyalty, Banking Sector

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DECLARATION

"I hereby declare that this research project is of my own effort except those summaries and information of which the resources are clearly specified"

Chen Kai

14th December 2012

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LIST OF ABBREVIATIONS

ATM = Automated Teller Machines

ECSI = European Customer Satisfaction Index

EFQM = European Foundation for Quality Management

EOQ = European Organization for Quality

FSTEP = Financial Sector Talent Enrichment Program

ICLIF = International Centre for Leadership in Finance

SERVQUAL = Service Quality

SPSS = Statistical Package for Social Science

CHAPTER 1: INTRODUCTION

1.0 Introduction

This chapter entails the purpose for this study, and gives insight into the background of the research on which this study is based. Here information, regarding Customer Loyalty in business will be discussed in the context of developing countries. Also information in relation to the problem definition, research questions and objectives, assumptions, significance for the study and limitations will be included. The chapter will be concluded with the overall thesis structure.

1.1 Background

From recent years, researches have increased their focus on the concept of customer satisfaction and customer loyalty. In current competitive environment, it is a big challenge for business in term of satisfying customers thereby improving customer loyalty. Presently, organizations gradually realized the importance of proactive understanding of customers' needs thereby meeting their needs. Customers have also become increasingly conscious of their value to their banks. Due to the highly competitive nature in the banking sector, it becomes the key factor for customers in achieving the success of the organization. All in all, the bank will be the market leader in the banking sector if the bank has the largest customer base with the highest customer loyalty level under such fierce competitive environment. Consequently, gaining information of customers' needs proactively and knowing how they feel and what their expectations have become critically important for maximizing customer retention.

There are three categories of banks and they are commercial banks, investment

banks, and company with Islamic banks in the Malaysian banking sector. All three categories formed together to support the national economic activities as the main source of financing. In Malaysia, banks can compete against one another as Malaysia practices open enterprise policy (Chelliah, Munusamy and Mun, 2010).

Malaysian financial scenery has undergone major changes since its independence in 1957. Currently, it has become one vital contributor to growth of economy and meets the change of customer demands effectively (Khan, 2010). On 31 August, 2007, Bank Negara Malaysia launched the first measure to make revolutionary process was the steady deregulation of financial market, 10 local commercial banks and 16 commercial banks owned by foreign was in service in Malaysia. In year 2004, a research conducted to evaluate customers' expectations and customer satisfaction in relation to service quality and product quality was carried out by Bank Negara Malaysia to share with the banking sector, leading to improved service quality in the banking sector. Allow the amalgamation of finance organization with commercial banks from same group of local banks and the local banking group improving their business, resulting in that the Banking and Financial Institutions Act 1989 was modified. Bank Negara Malaysia established the International Centre for Leadership in Finance (ICLIF) and launched its Leadership Development Programs to promote leadership talents for the financial market, resulting in organizations being promoted to become excellence (Bank Negara Malaysia, 2004).

Financial Sector Talent Enrichment Program (FSTEP) was started in September 2007 by Bank Negara Malaysia to develop and cultivate 1000 extremely qualified talents for instant placements in financial institutions and banking sector. Cooperating with industry and training institutes, it contributes to speed the

supply of highly qualified and capable employee for the financial services industry (Aziz, 2008). Due to increasing fierce competition and high pressures from economic recession, banks have to implement one or more quality measures on service to control costs and meet customer demands. Loyal customers have strong desire for the organization's product and service, and they usually repurchase more and are willing to spend more money on the organization's products and service. Therefore, loyal customers can help the organization gain more value for business, but also lower cost to maintain customer loyalty as opposed to attracting new customers.

This study aims to understand the importance of factors including service quality, complaint handling, trust and customer satisfaction to customer loyalty, as well as examine the extent of each factor impacts on customer loyalty in Malaysian banks.

1.2 Problem Statement

According to Ernst & Young (2012), customers are becoming less loyal to bank, as they are increasing the type and number of banks they use. The data has decrease from 41% to 31% for customers who use only one bank. The number of customers who are attempting to switch banks has increased from 7% to 12% year by year, as well as several key markets attrition rates have risen. The main reasons for switching banks include lack of personalized service or convenient contact (26%), and bad branch experience (31%), and the percentage kept increasing. However, the most cited driver of attrition is dissatisfaction with high undefined fees, which is cited by half of the respondents. Hence, it is helpful for banks to develop their strategies to gain better customer retention and it is vital for researches to focus on customer satisfaction and customer loyalty.

Furthermore, it is of the essence that banks determine their level of customer satisfaction, complaint handling and customer loyalty to improve banks' competitive strength and identify problems to why customer churn or switch.

In Malaysia, most banks will outsource projects on customer satisfaction to survey companies while some will carry out their own small scale customer satisfaction surveys to improve their services. However, most banks do not place emphasis on studying the level of trust and loyalty of their customers (Yap, Ramayah and Nushazelin, 2012). Due to severe competition and higher customer expectations, customer loyalty in banks has been a major alarm to operator. In the Malaysian banking industry, mergers of banks, deregulation and increasingly high competitive pressures have caused remarkable changes. Presently, the challenges to cultivate customer loyalty due to increased customer satisfaction and expectation has influenced Malaysian banks (Lam and Bojei, 2007). In Malaysian banking industry, bank customers have recognized more on their rights to fair treatment (Kheng, Mahamad and Ramayah, 2010), such as the right to fair treatment in accessing to adequate information for decision making, honest and ethical dealings, prompt and fair settlement of claims. Constant progresses in maintaining customer loyalty have to be conducted due to the high expectation, changeable demands and highly fierce competition.

The related empirically researches on customer loyalty in banking system are limited, especially in Malaysia. Lian (2011) stated that there is low financial literacy in Malaysian bank customers. Financial products became more varied and complex. However, Malaysian banking consumers are poor in financial knowledge and skills, and therefore have not enough knowledge to make correct financial choice. These increase communication gap between customers and

employees, and cause customers' dissatisfaction, making them to choose another bank. Furthermore, these studies are quite old taking into consideration the fast development of society, current scenario may look different. Thus, constant researches on customer loyalty have to be conducted for banks to enable their customers to stay loyal.

From the perspective discussed above, this study aims to examine the extent of service quality, complaint handling, trust and customer satisfaction impact to customer loyalty with an ideology in importance of factors as a strategy to assist Malaysian banks to retain and attract customers.

1.3 Research Questions

The research questions of the study are illustrated below;

1. To what extent does service quality impact customer loyalty in Malaysian banking sector?
2. To what extent does complaint handling impact customer loyalty in Malaysian banking sector?
3. To what extent does trust impact customer loyalty in Malaysian banking sector?
4. To what extent does customer satisfaction impact customer loyalty in Malaysian banking sector?

1.4 Research Objectives

1. To understand the importance of service quality to customer loyalty in Malaysian banking sector.
2. To understand the importance of complaint handling to customer loyalty in Malaysian banking sector.