



**BANK SERVICE QUALITY AND ITS  
RELATIONSHIP TOWARDS CUSTOMER  
SATISFACTION AND LOYALTY:  
A CASE STUDY ON AGROBANK'S 3F LOAN**

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## ABSTRACT

This study attempts to determine the factors of bank service quality towards customer satisfaction and customer loyalty for Agrobank's 3F loan. The measurement used is in accordance with the model conceptualized by Yavas and Arsan (1995). The twenty (20) items of bank service quality relevant to the banking sector are distributed across four (4) dimensions: service environment; interaction quality; empathy and reliability, four (4) items on customer satisfaction and two (2) items on customer loyalty. The respondents will have to decide based on Likert-type five point scale for measuring the Bank service quality dimensions, customer satisfaction and loyalty. The data were collected and administered by means of structured questionnaires on twenty (20) items. There were one hundred and thirty (130) usable, completed returned questionnaires for analysis using SPSS Version 17 software. Statistical methods, such as the t-test, Cronbach's - Alpha and factor analysis, were then employed to answer the research questions. The results showed that the four (4) factors clustered under bank service quality dimensions has got relationship and influence towards customers' satisfaction and customer loyalty. There are no significant differences in their expectations of the bank service quality between all the demographic variables. The research also revealed that generally the respondents were moderately satisfied with the level of service quality performed by Agrobank. Although much attention was spent in constructing a sample with high presentation ability, the selected respondents within Kuching area may not reflect the whole picture of Agrobank's Service Quality in Malaysia. Time and cost constraints were also considered when carrying out the research. The results have significant implications for Agrobank in formulating, implementing and evaluating their operational, marketing and human resource strategies. This study is important to determine key relationships between bank service quality dimensions, service quality performance in order to prevent customers switching / defecting to other bank, increased customer satisfaction in order to achieve higher customers' loyalty.

**Key words:** Service Quality, Customer Satisfaction, Customer Loyalty

## CHAPTER ONE: INTRODUCTION

### 1.1 Background

Banking industry in Malaysia is an evolving and developing industry. In recent years, the banking industry has undergone massive changes in scope and nature of its environment. Technological advances, increased competition, massive increases in income levels, and the expansion in economic activities as well as the growing diversity of customer needs have contributed to the increase in the scope of banks services. In this competitive and ever changing environment, banks can ensure their survival and gain a competitive edge through the emphasis on using service quality as a means of differentiation. Banks are facing intense competition, volatile costs of funds, diminished customer loyalty and an expensive high-tech.

The challenge for banks is to lower costs, increase efficiency, while improving the quality of their service, and increasing customer satisfaction. Banks are introducing new products to meet the dimensional demands of customers. Unfortunately by just adopting new products is not sufficient. Customer satisfaction has been an important agenda for banking industry as service is concern (Holliday, 1996). This is compounded with intense competition amongst banks due to the saturated market. As a consequence customer satisfaction and customer retention program are actively pursued (Levesque and McDougall, 1996). Therefore, in this context, the purpose of this study is to examine bank service quality and its

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 The Definition of Service Quality

Service quality has been the talking point of marketers due to its superiority as delivery of high service quality offers firms the opportunity to differentiate themselves in competitive business environments. According to Parasuraman et al. (1985), service quality is a key of outcome variable. They have the same opinion that consumer's service quality perceptions are predisposed by number of gaps, which is the dissimilarity between performance and anticipated level of service. Another definition of service quality proposed by Berry et al. (1988) is "conformance to customer specifications" while Evans and Lindsay (1999) proposed the view that customer satisfaction results from the provision of goods and services that meet or exceed customer needs. Thus high service quality resulted in customer satisfaction and loyalty, greater willingness to recommend to someone else by words of mouth and testimonials, reduction in customer complaints, high market penetration and acceptance, high revenues and improved customer- retention rates. Even Agrobank has a specific program which is known as customer retention program which function to identify loyal customers having good loan track record and offered pre approve additional loan for their taking.