SERVICE QUALITY AFFECTING CUSTOMER LOYALTY: A CASE STUDY OF THE CREDIT DEPARTMENT IN A COMMERCIAL BANK IN UBON RATCHATHANI PROVINCE

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Abstract - This research investigates two critical objectives (1) evaluate the levels of service quality and customer loyalty in the Credit Department of a commercialbank in Ubon Ratchathani Province, and (2) analyze the impact of service quality dimensions on customer loyalty. The sample comprised 310 SME loan customers selected through simple random sampling. Data were collected using a structured questionnaire and analyzed using descriptive statistics, including frequency, percentage, mean, and standard deviation, as well as multiple regression analysis to examine the relationships between variables. The results indicate that the overall service quality of the Credit Department was perceived as outstanding, while customer loyalty was rated high. Regression analysis revealed that four dimensions of service quality—empathy, tangibles, reliability, and assurance—had a statistically significant influence on customer loyalty at the 0.01 and 0.05 levels. Among these dimensions, empathy emerged as the most impactful predictor ($\beta = 0.39$), followed by tangibles ($\beta = 0.33$), reliability ($\beta = 0.16$), and assurance ($\beta = -0.14$). Together, these dimensions explained 50% of the variance in customer loyalty, emphasizing the critical role of service quality in building and sustaining customer loyalty in the banking sector.

Keywords - Service Quality, Customer Loyalty, Banking Sector, Ubon Ratchathani

I. INTRODUCTION AND SIGNIFICANCE OF THE STUDY

Commercial banks hold a pivotal position in the economic development of Thailand, serving as financial intermediaries that channel funds from savers to investors. This process not only drives economic circulation but also contributes to the broader advancement of the nation's economy. Historically, commercial banks have consistently expanded their roles and services by establishing branch networks that cover all regions, ensuring accessibility to financial services. However, with the increasingly competitive nature of the banking industry, coupled with evolving consumer behaviors and the growing readiness of customers to switch to competitors offering superior financial innovations, the urgency for banks to enhance service quality has intensified. These dynamics underline the critical necessity for banks to not only meet but exceed customer expectations to foster satisfaction and loyalty (Waranyu Boonchum, 2021).

Service quality is recognized as a fundamental determinant in cultivating customer loyalty. High-quality service delivery reduces operational errors, enhances convenience, and instills confidence in customers. Furthermore, heightened competition in the financial services sector has compelled banks to consistently innovate and diversify their product offerings. Strategies to gain a competitive advantage often include organizational restructuring, the refinement of operational systems, and the implementation of more effective management practices (Phongwiwat Phankaew, 2019). In the context of the Thai economy, small and medium-sized enterprises (SMEs) constitute a cornerstone, playing an indispensable role in employment generation and income distribution. In 2022, SMEs accounted for 99.60% of all enterprises in the country, contributing a significant 42.35% to the national GDP. However, the outbreak of the COVID-19 pandemic has had profound adverse effects on SME operations, exacerbating their financial vulnerabilities and operational challenges. In response, commercial banks have had to accelerate their support for SMEs by providing financial assistance aimed at stabilizing liquidity and sustaining business continuity (Office of Small and Medium Enterprises Promotion, 2022).

Recognizing the economic importance of SMEs, one commercial bank has prioritized the provision of SME loans through tailored financial products designed to address the specific needs of this sector. The bank has further refined its approach by segmenting its SME customers into Micro, Small, and Medium categories, thereby enhancing management efficiency and improving service delivery. This segmentation strategy reflects the bank's ambition to expand its market share within the SME sector to 30% within a three-year timeframe (A Commercial Bank, 2022).

Against this backdrop, the present study aims to investigate the service quality of SME loan provisions by a commercial bank in Ubon Ratchathani Province. The study seeks to identify actionable insights that can inform the development of enhanced service strategies, ensuring alignment with customer needs and satisfaction. These efforts align with the bank's overarching policy to strengthen

support for SMEs, which remain a cornerstone of the regional economic landscape.

Research Objectives

1. To examine the level of service quality and customer loyalty toward the credit department of a commercial bank in Ubon Ratchathani Province.
2. To analyze the dimensions of service quality that influence customer loyalty in the credit department of a commercial bank in Ubon Ratchathani Province.

Research Hypothesis

The service quality of the credit department of a commercial bank in Ubon Ratchathani Province has a significant impact on customer loyalty.

Scope of the Study

Content Scope

This study employs the theoretical framework of Parasuraman, Zeithaml, and Berry (2008), focusing on five key dimensions of service quality: reliability, responsiveness, assurance, empathy, and tangibles. Additionally, customer loyalty is analyzed through the dimensions of word-of-mouth, repeat business, and customer protection, following the model proposed by Bloemer, Ruyter, and Wetzels (2022). These frameworks are integral to understanding and enhancing service quality to achieve sustainable customer satisfaction.

Population and Sample

The population of this study includes 1,612 SME loan customers from a commercial bank in Ubon Ratchathani Province (A Commercial Bank, 2022). A sample size of 310 participants was determined using Krejcie and Morgan's (1970) table with a margin of error of 0.05%. The sample was selected through simple random sampling.

Timeframe

This study was conducted over a five-month period, from November 2022 to March 2023.

Research Framework

This study investigates the influence of service quality on customer loyalty, focusing on the credit department of a commercial bank in Ubon Ratchathani Province. The research framework integrates the service quality model of Parasuraman, Zeithaml, and Berry (2008) and the customer loyalty model of Bloemer, Ruyter, and Wetzels (2022). The framework is as follows:

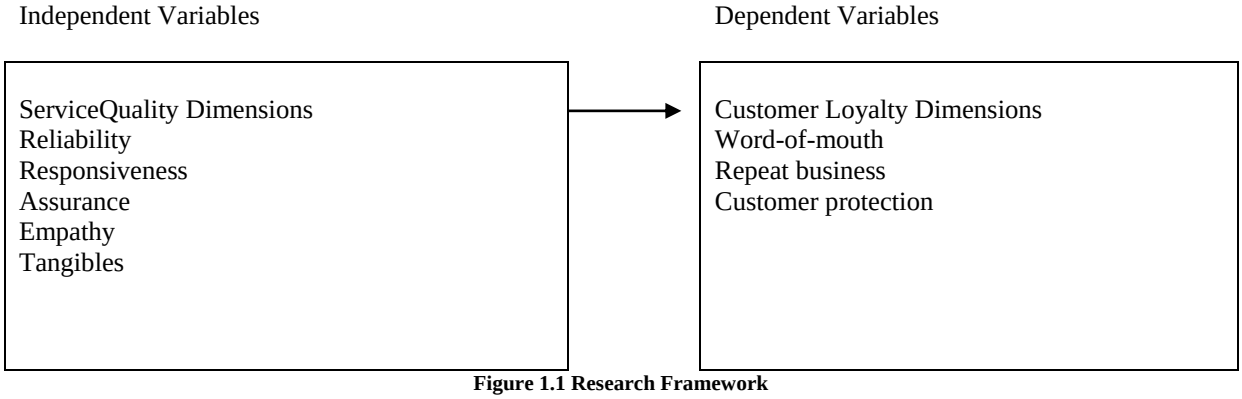


Figure 1.1 Research Framework

II. LITERATURE REVIEW

Theoretical Concepts of Service Quality

Service quality is defined as an organization's or service provider's ability to meet customer needs and expectations by delivering experiences that align with or surpass what customers anticipate. This is achieved through comprehensive, consistent, and excellent service delivery at every stage of the process. Service quality does not merely refer to the outcomes customers receive but encompasses the entirety of their experience during service delivery (Parasuraman, Zeithaml, and Berry, 2008).

Oliver (1994) identified three core components of service quality: customer satisfaction, service quality itself, and perceived value. Service quality is achieved when the service received is equal to or exceeds expectations. It involves comparing customer expectations to the actual service provided, reflecting satisfaction and perceived value (Somwang Phongsathaporn, 2009).

Parasuraman, Zeithaml, and Berry (2008) developed the SERVQUAL model, which evaluates service quality based on customer expectations and perceptions. The model measures five key dimensions:

1. Tangibles: Physical facilities, tools, and employee appearance.
2. Reliability: The ability to deliver promised services accurately and consistently.
3. Responsiveness: The willingness and readiness to respond to customer needs promptly.

4. Assurance: Employee knowledge, courtesy, and ability to instill trust and confidence.
5. Empathy: Providing individualized care and understanding customer needs.

SERVQUAL facilitates gap analysis by comparing "expected" versus "actual" service to identify areas for improvement. It underscores that service quality is not limited to outcomes but extends to the process customers experience during service delivery.

Richard L. Oliver (1994) explained that service quality is essential for achieving customer satisfaction. He emphasized two dimensions:

1. Service Outcome: Evaluating whether the customer received what they expected.
2. Service Process: Assessing the experience during service delivery, such as employee attitudes and behaviors.

Oliver highlighted the relationship between service quality and satisfaction. Service quality reflects an organization's long-term ability to maintain consistent standards, whereas satisfaction is a short-term evaluation of a specific experience. Customer expectations strongly influence quality evaluations. If the service exceeds expectations, customers perceive high quality; if it falls short, dissatisfaction occurs. This is consistent with Chaipol Chawprasert (2010), who noted that service quality assessment is more complex than evaluating tangible goods, as it must consider both processes and outcomes.

Theoretical Concepts of Customer Loyalty

Customer loyalty refers to a profound relationship between customers and an organization, product, or service. It encompasses both psychological and behavioral aspects, leading to consistent support or repeat purchases. Several scholars have defined loyalty with a focus on long-term trust and commitment. Dick and Basu (1994) described loyalty as the connection between attitudes and brand identity. Fournier and Yao (1997) emphasized loyalty as a combination of feelings and actions, such as repeat purchases or recommending the organization to others. Similarly, Oliver (1993) defined loyalty as a deep commitment that results in consistent repurchases despite external influences. Gronroos (2000) argued that loyalty stems from a voluntary preference for an organization perceived as more valuable than competitors. Wut Sookcharoen (2016) explained that loyalty develops through a process of perception, learning, and brand association. Sirivann Sereerat et al. (2016) added that loyalty results from a deep intention to repurchase and support the brand. Natapat Lorpraditpong (2017) further clarified that repeat purchases alone do not always indicate loyalty, as external factors like location or competitive pricing may influence behavior. Weena Khositsurangkakul (2022) concluded that customers are loyal when an organization deeply meets their needs and consistently delivers satisfaction.

In summary, customer loyalty in commercial banking arises from building trust and a strong connection between the bank and its customers. This bond fosters behaviors and feelings that lead to continued support for the bank.

Factors Influencing Customer Loyalty

Customer loyalty is influenced by both behavioral and attitudinal factors. Teerapan Lothongkam (2017) identified the following key factors:

1. Customer Satisfaction: Arising from the comparison between expectations and actual service received. It directly impacts repeat purchases and word-of-mouth while reducing price sensitivity and fostering long-term loyalty.
2. Trust: Essential in customer-organization relationships, trust reduces risk and builds confidence. Customers who trust the organization's integrity and responsibility are more likely to return.
3. Emotional Bonding: Customers feel emotionally connected to an organization due to positive impressions of its products or services, leading to long-term brand equity.
4. Choice Reduction: Some customers reduce choices to minimize complexity and risk. Consistently delivering positive experiences encourages customers to choose the same organization over competitors.
5. Corporate Image and History: A reputable image and credible history foster confidence and long-term loyalty.

Panisa Meejinda (2020) added that customer loyalty can also be influenced by:

1. Employee Loyalty: Loyal employees contribute to strong and lasting customer relationships.
2. Complaint Management: Addressing customer complaints effectively prevents churn and enhances satisfaction.
3. Service First: Providing proactive and responsive service before the sale strengthens customer relationships and increases repeat purchases.

In conclusion, building customer loyalty requires satisfaction, trust, and emotional connection. Organizations that meet customer needs and consistently provide positive experiences are better positioned to sustain long-term loyalty.

Research Findings

General Information about the Respondents

The majority of respondents were female (59.7%), aged between 30–40 years (43.9%), and married (58.4%). Most respondents held a bachelor's degree

(57.4%) and were business owners (55.2%). In terms of income, the majority reported earning less than 1,000,000 THB per month (46.5%).

Service Quality

Service Quality Dimensions	Mean ($\bar{x}$)	Standard Deviation (SD)	Interpretation
Reliability	4.21	0.58	Very High
Responsiveness	4.23	0.55	Very High
Assurance	4.30	0.59	Very High
Empathy	4.24	0.58	Very High
Tangibles	4.26	0.57	Very High
Overall	4.25	0.48	Very High

Table 1 presents the mean scores and standard deviations of the service quality dimensions for the credit department of a commercial bank in Ubon Ratchathani Province.

Summary of Service Quality

The overall service quality was rated as "Very High" with a mean score of 4.25. Among the dimensions, Assurance received the highest score (mean = 4.30), followed by Tangibles (mean = 4.26) and Empathy (mean = 4.24).

Customer Loyalty

CustomerLoyalty Dimensions	Mean ($\bar{x}$)	Standard Deviation (SD)	Interpretation
Word-of-Mouth	4.24	0.62	Very High
Repeat Business	4.19	0.67	High
Advocacy/Protection	3.83	0.70	High
Overall	4.08	0.56	High

Table 2 presents the mean scores and standard deviations for customer loyalty toward the credit department of a commercial bank in Ubon Ratchathani Province.

Summary of Customer Loyalty

Overall, customer loyalty was rated as "High," with a mean score of 4.08. Among the dimensions, Word-of-Mouth received the highest rating (mean = 4.24), indicating customers' strong willingness to recommend the bank's services to others. This was followed by Repeat Business (mean = 4.19) and Advocacy/Protection (mean = 3.83).

Hypothesis Testing

Before conducting hypothesis testing, the researchers examined multicollinearity among independent variables to determine the relationships within the linear regression model. Multicollinearity arises when independent variables are highly correlated, which can negatively affect the prediction accuracy of the model when applied to unseen data.

To assess multicollinearity, the Tolerance and Variance Inflation Factor (VIF) values were examined. A Tolerance value greater than 0.19 and a VIF value less than 5.30 indicate acceptable levels of multicollinearity (Hair et al., 2010). The results showed that the five service quality dimensions had Tolerance values ranging from 0.34 to 0.40, which were greater than 0.19, and VIF values ranging from 2.51 to 2.96, which were below 5.30. Therefore, all independent variables were deemed suitable for inclusion in the regression analysis.

Variable	b	SE b	Beta	t	Sig.	Tolerance	VIF
Constant	0.83	0.20		4.07	0.00**		
Reliability	0.16	0.07	0.16	2.45	0.02*	0.36	2.76
Responsiveness	0.04	0.07	0.04	0.57	0.57	0.34	2.96
Assurance	-0.13	0.06	-0.14	-2.14	0.03*	0.39	2.54
Empathy	0.38	0.06	0.39	5.95	0.00**	0.38	2.63
Tangibles	0.32	0.06	0.33	5.12	0.00**	0.40	2.51

Table 3: Multiple Regression Analysis of Service Quality on Customer Loyalty

Model Summary:

- $R^2 = 0.51$, Adjusted $R^2 = 0.50$
- $F = 62.78$, Sig. = 0.00

Key Findings from the Regression Analysis

The results from the multiple regression analysis indicate that four service quality dimensions significantly predict customer loyalty toward the credit department of a commercial bank in Ubon Ratchathani Province. The order of influence is as follows:Empathy: Beta = 0.39,Tangibles: Beta = 0.33,Reliability: Beta = 0.16,Assurance: Beta = -0.14

These four variables collectively explain 50% of the variance in customer loyalty ($R^2 = 0.51$), with a prediction error margin of ±0.20. However, Responsiveness does not have a significant effect on customer loyalty.

Regression Equation

The regression equation for predicting customer loyalty is:

Y = 0.39 (Empathy) + 0.33 (Tangibles) + 0.16 (Reliability) - 0.14 (Assurance)

Research Summary

The study investigating the factors influencing customer loyalty toward the credit department of a commercial bank in Ubon Ratchathani Province concluded that four key factors significantly affect customer loyalty. These factors, shown in Figure 2, include empathy, tangibles, reliability, and assurance, while responsiveness was not found to have a significant impact.

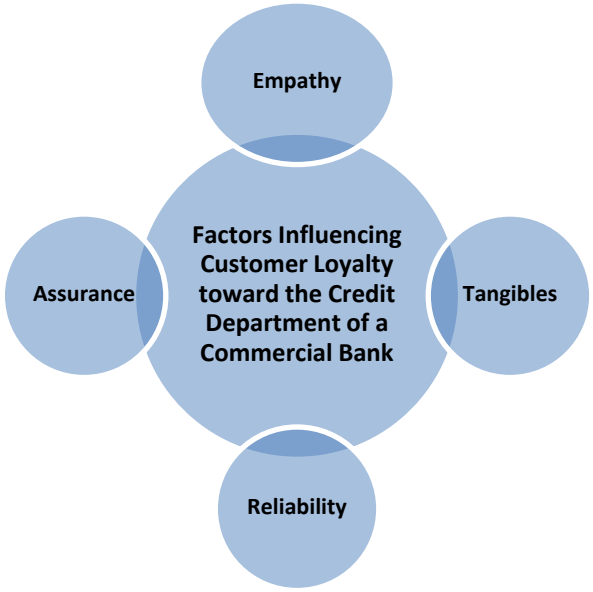


Figure 2: Factors Influencing Customer Loyalty toward the Credit Department of a Commercial Bank

Discussion of Research Findings

Factors Influencing Customer Loyalty

The results indicate that service quality significantly affects customer loyalty, with empathy and tangibles being the most influential factors. However, responsiveness did not have a significant impact on customer loyalty.

Detailed Discussion

1. Empathy

   Empathy, characterized by polite, attentive, and

personalized customer care, plays a pivotal role in fostering customer loyalty. This aligns with the findings of Watinee Nuinaeb (2022), who emphasized that gentleness and attentiveness promote sustainable customer relationships.

2. Tangibles
   Tangibles, such as clear communication materials and visually appealing facilities, enhance customer confidence and satisfaction. This is consistent with Sudarat Thongdee (2022), who found that well-maintained facilities and a strong service image positively influence customer loyalty.
3. Assurance
   Although strict adherence to standards enhances trust in the bank's systems, a lack of flexibility in handling credit issues may diminish long-term satisfaction. This finding corroborates the research of Waranyu Boonchum (2021).
4. Reliability
   The bank's stability and consistent service delivery strengthen trust and confidence in the organization.
5. Responsiveness

The lack of significant impact from responsiveness suggests internal management challenges that require improvements to better meet customer expectations.

RECOMMENDATIONS

1. Improving Responsiveness

- Accelerate the loan approval process to enhance transparency and efficiency.
- Encourage employees to regularly visit customers' business locations to build stronger relationships and better understand their needs.

2. Enhancing Empathy

- Train staff to develop skills in polite, attentive, and empathetic service delivery.
- Establish a clear and efficient complaint management system to address customer concerns effectively.

3. Upgrading Tangibles

- Simplify communication materials and ensure they are easily accessible through diverse channels, such as social media and mobile applications.
- Modernize service facilities to provide a comfortable and convenient customer experience.

4. Increasing Flexibility in Assurance

- Adjust policies to include flexible solutions, such as debt restructuring or extended repayment periods during financial hardship, to reduce customer discomfort and build confidence in the bank's services.

RECOMMENDATIONS FOR FUTURE RESEARCH

- Explore customer needs in other service areas and compare findings with competing banks to develop comprehensive service strategies that better address customer expectations.

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