

THE MEDIATING EFFECT OF SERVICE QUALITY ON TOTAL QUALITY MANAGEMENT AND CUSTOMER LOYALTY IN BANKING SECTOR

Abstract

The aim of the research is to scrutinize the effect of TQM on customer loyalty through the mediation of quality service. The data was collected from employees of private banks in Iraq. Purposive sampling technique was used to collect the data. There were 390 employees taken as a sample size. The findings show that TQM practices has positive effect on customer loyalty. The significant mediating effect of quality service between the association of TQM and customer loyalty. The implication of the study is the private banks implement TQM effectively so that it has more a great impact on customer loyalty.

Keywords: service quality, TQM, customer loyalty

Introduction

The primary difficulty for global enterprises is to endure and enhance their ability to compete in the marketplace (Zakuan, et al, 2010). Quality management plays a crucial part in enhancing company productivity. Techniques of Total Quality Management will influence an organization's business productivity (Psomas&Jaca, 2016). Additional research has also identified the beneficial effects of Total Quality Management implementation in the banking sector (Petnji et al., 2011). Research on Total Quality Management (TQM) is vital as it may identify key factors that facilitate TQM implementation, particularly in the service industry, which has been infrequently examined (Al-Tabbaa, Gadd, &Ankrah, 2013). TQM research is infrequently conducted in the banking sector and its effects on marketing effectiveness, including customer engagement and loyalty, are underexplored. TQM encompasses three critical dimensions: customer focus, human resource and employee knowledge (Psomas&Jaca, 2016). To enhance Total Quality Management in banking services, the organization should contemplate following

aspects. So, this research primarily examines the impact of TQM on customer loyalty through the mediation of service quality.

Total Quality Management

Total Quality Management (TQM) provides a methodology for the continuous enhancement of performance across all levels of processes and functional areas within a business, utilizing every available capital and personnel resources. Through the use of Total Quality Management (TQM), banks can ascertain client requirements, enhance service delivery processes, and minimize errors in services (Baidoun et al., 2018). The objective of TQM is to enhance service quality to meet and satisfy the requirements and aspirations of the target clientele. Previous research indicated the advantages of TQM execution, including enhanced productivity and effectiveness, increased market share, improved employee morale, superior quality, elevated employee performance, as well as a strengthened competitive edge (Zairi, 2013).

The objective of TQM intends to enhance service quality to meet and satisfy the demands and wants of target consumers. According to Psomas and Jaca (2016), the components of TQM that enhance service quality encompass: of staff, perpetual improvement, continuing education, collaboration, empowerment, devotion and backing from senior management, a democratic leadership approach, an emphasize on client satisfaction, as well as an organizational culture of quality. This study examines three components of Total Quality Management: the quality of HR, customer focus, and staff knowledge. The subsequent explanation will delineate three dimensions.

Total Quality Management is significantly impacted by the dedication of senior leadership to human resources (Talib, Rahman, & Qureshi, 2013). The HR outcome can be characterized as the capacity of employees to deliver internal and services for consumer, including service efficiency and resolution of relevant customer grievances in the banks that cater to clients (Psomas&Jaca, 2016). The organization can enhance human resources through several programs that allow employees to meet their job requirements as well as job training, skills development, and career advancement. The commitment of each employee to personal growth also affects employee development (Lau & Tang, 2009). The quality of HR growth is assessed depends on the capability HR training and workers' commitment to enhancing skills (Psomas&Jaca, 2016). The current study utilizes three components of Total Quality Management (TQM).

Customer Focus

In TQM, customer focus has become a crucial component for enhancing service quality within an organization. The emphasis of customers encompasses both internal and external clients who will influence the company's quality trajectory. Internal customers refer to the company's personnel responsible for serving clients, while other people are the customers who influence the business's quality trend. Customer focus might be assessed using various criteria (Psomas&Jaca, 2016). These factors include the simplicity of customer complaints, consumer assessment, and client care.

Employees Knowledges

The knowledge of employees is crucial for customer service. Someone in the workforce with sufficient knowledge can elucidate and resolve client issues. This expertise is applied when a worker communicates, addresses issues, and provides additional services to customers (Psomas&Jaca, 2016).

Service Quality

In the financial services sector, service quality plays a crucial role in achieving an edge over competitors. Due to the challenges in differentiating products within the banking market, service quality has emerged as a key feature for distinguishing a particular bank from another. Khorshidi et al. (2014) assert that superior service quality enables banks to attain a competitive edge. Numerous definitions and concepts exist regarding service quality. Most prior studies indicate that pleasure arises from a comparative analysis of customer expectations and views regarding achievement (Shayestehfar& Yazdani, 2019). When clients assess various service attributes, they are evaluating the quality of the services provided. Zeithaml et al. (1988), as cited in Lin (2012), delineate the SERVQUAL characteristics into five categories: Tangibility, which encompasses physical amenities, tools, and employee appearance. Reliability: The capacity to execute the service that was offered correctly and precisely. Responsiveness: Readiness to assist clients and deliver timely service. Assurance: The employees' expertise and courtesy, along with their

capacity to instill trust and confidence. Empathy: The compassionate, individualized attention provided by providers of services to their clients. The SERVQUAL model is selected to assess service quality as it effectively delineates service dimensions and can be evaluated from the perspective of banking service customers (Fauzi&Suryani, 2019). An exemplary service is one that stresses high-quality service to clients, emphasizing prompt and dependable assistance while comprehending customer wants, hence demonstrating dedication to clients (Rahmayanti, 2010). The comprehensive execution of service quality would enhance customers' sense of value.

Customer Loyalty

Customer loyalty signifies the profound dedication to continually repurchase favored items or services in the years to come. Ribbink et al. (2004). A loyal consumer is more inclined to make a purchase than an ordinary customer. Griffin (2002) asserted that a buyer is considered loyal if they exhibit consistent purchasing behavior or if business is a stipulation necessitating consumers to make at least two purchases within a specified time frame. Kotler and Keller (2012) assert that loyalty constitutes a profound commitment to purchase or endorse a preferred product or service in the future, despite the potential for situational factors and marketing strategies to induce consumer switching. Hapsari et al. (2017) and Dhasan et al. (2017) assert that customer loyalty is assessed through consumer behaviors, including their propensity to promote goods to others, their good preferences, as well as their purchasing frequency. Customer loyalty encompasses both attitude and behavior (Suryani, 2013). Numerous studies concerning customer loyalty measurement examine both attitudinal aspects and behaviors associated with products or services.

TQM and Service Quality

The introduction of TQM in an organization will enhance customer service quality (Calvo-Mora et al., 2014). The use of TQM may influence the enhancement of service quality (Psomas&Jaca, 2016). Organizations whose top leadership implements TQM will show greater dedication to the development of their human resources. Moreover, they will exhibit increased attention on their

customers while simultaneously demonstrating greater regard for employee expertise. All these aspects will influence an organization's service quality towards its customers.

Service Quality on Customer Loyalty

Ensuring the quality of service remains high is essential for the organization to foster a positive client perception. The quality of service is going to improve a company's customer experience by using the competencies of its internal staff for the benefit of customers. The consumer determines whether the received quality satisfies their wants and expectations. When the quality delivered by the consumer aligns with or beyond expectations, the customer experiences pride, happiness, and satisfaction, thereby fulfilling their anticipations. The research findings indicate the functional aspects of service quality. Consumers will react favorably to services they have endorsed through recommendations to others. Organizations must enhance service quality to sustain and augment consumer loyalty. Consumers will exhibit loyalty to a chosen product when the perceived quality meets their needs. Kotler and Keller (2012) contend that loyalty constitutes a profound commitment to purchase or endorse a preferred product or service in the future, notwithstanding the possibility that situational factors and marketing strategies may prompt clients to change their allegiance. Lin (2012) asserts that multiple channels service quality, specifically evaluated by SERVQUAL dimensions, significantly influences consumer loyalty. The dimensions include tangibility, responsiveness, as well as empathy. According to Lin (2012), tangibility aspects encompass physical evidence as well as personal appearance. The responsiveness dimension pertains to the readiness to assist customers and deliver prompt service, while the empathy dimension involves the attentiveness of service providers in addressing individual needs through effective resolution of client grievances. Furthermore, the findings from So et al. (2016) indicate that service brand evaluation, characterized by indices of quality of service and customer happiness, significantly influences brand loyalty, albeit to a lesser extent than other variables.

Research Methodology

The current study is a quantitative with cross-sectional design. We used a five-point Likert scale, 1 = strongly disagree to 5 = strongly. The scale was adapted from the current literatures of TQM, quality service and customer loyalty. In total, to evaluate employees' perception, there were 32 items scale consists of TQM, quality service and customer loyalty. TQM with its three dimensions, HR, CF and EK is measure by five items, six items and five items respectively. the quality service with nine items and customer loyalty with seven items were measured. This scale developed and taken from the study of Harimurti, R., & Suryani, T. (2019).

Date Collection

Data gathered from personnel in the private banking sector to evaluate the study's hypotheses. Data was obtained online. The sample size comprised 390 individuals. Additionally, non-probability and purposive sampling techniques were employed for data collecting (Sekaran, 2002). The whole list of personnel was unavailable. The personnel were employed on a permanent basis. Forty-nine percent of staff were male, fifty-nine percent were under the age of 45, and thirty-nine percent had over 20 years of professional expertise in the banking business. Nonetheless, the demographic parameters were utilized as control variables.

Data Analysis

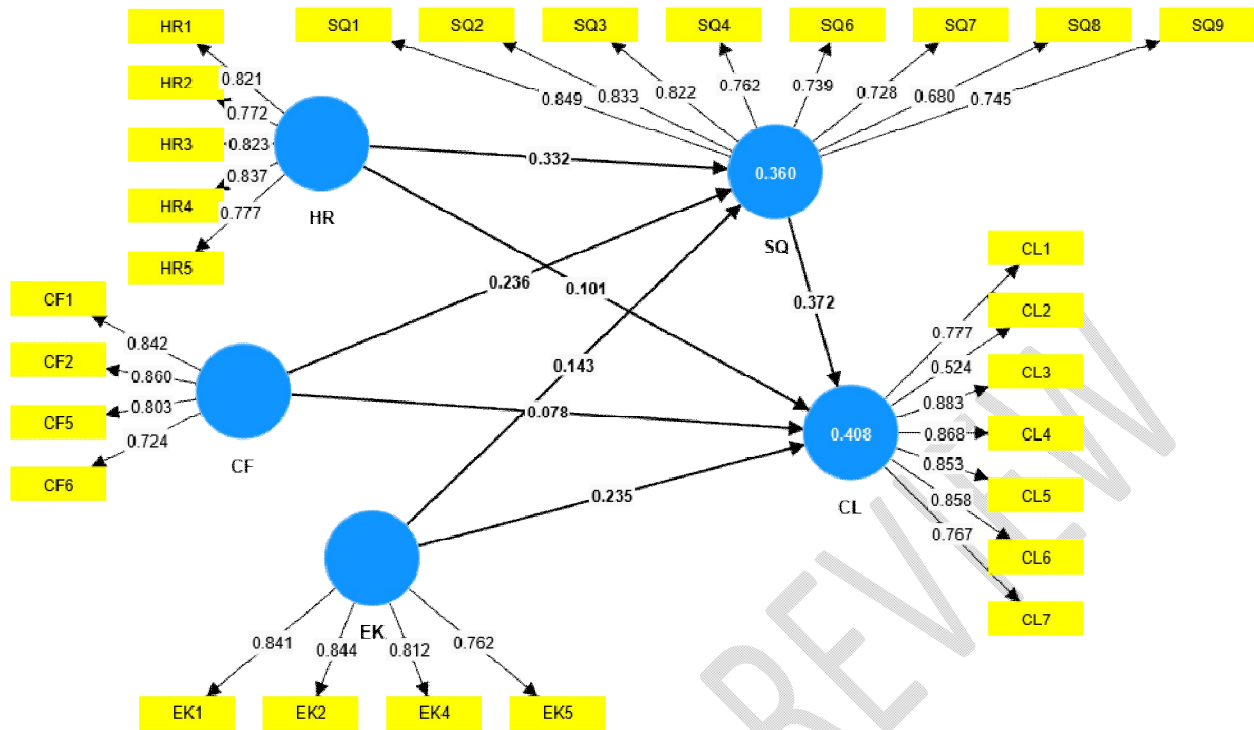


Fig 1 :Path analysis

Table 1: Internal Consistency and Validity

Constructs	Cronbach's alpha	CR	AVE
CF	0.825	0.883	0.654
CL	0.901	0.923	0.638
EK	0.831	0.888	0.665
HR	0.866	0.903	0.651
SQ	0.902	0.921	0.595

Table 2: Discriminant Validity (HTMT)

Constructs	CF	CL	EK	HR
CL	0.525			
EK	0.712	0.564		
HR	0.655	0.505	0.545	
SQ	0.573	0.622	0.495	0.597

Investigating the measurement model comprises reliability or internal consistency, convergent as well as discriminant validity (DV). Reliability or internal consistency measures the degree to

which the items evaluate a precise latent construct (Ramayah, et al, 2018). Alpha, Composite reliability (CR) should have the value above 0.7 as a standard for each construct is measured as acceptable. For all the constructs, the results designated that CR values were above 0.70.

Convergent validity measures the degree to which an amount associates positively with alternate measuring of the same constructs (Hair Jr, et al, 2017). The measurement of CV needs examining factor loading values of the items as well as the average variance extracted (AVE). Hair Jr, et al, (2017) suggested that outer loadings can be retained if the value is greater than 0.50. So, CF ($\alpha=0.825$, CR=0.883, AVE=0.654), CL ($\alpha=0.901$, CR=0.923, AVE=0.638), EK ($\alpha=0.831$, CR=0.888, AVE=0.665), HR ($\alpha=0.866$, CR=0.903, AVE=0.651) and SQ ($\alpha=0.902$, CR=0.921, AVE=0.595)

Discriminant validity (DV) means the degree to which the constructs applied in the model are separate from one another constructs (Hair et al., 2017). HTMT ratio was applied at 0.85, since it is the most conservative standard value for HTMT (Henseler, et al, 2015). For HTMT, the value greater than 0.90 proposes lack of DV. The results show the HTMT in table 2 was less than 0.85. It is obvious that value confirms to all the expectations of DV. Thus, the complete results of the measurement model show that satisfactory internal consistency or reliability, convergent validity as well as discriminant validity.

Structural Model

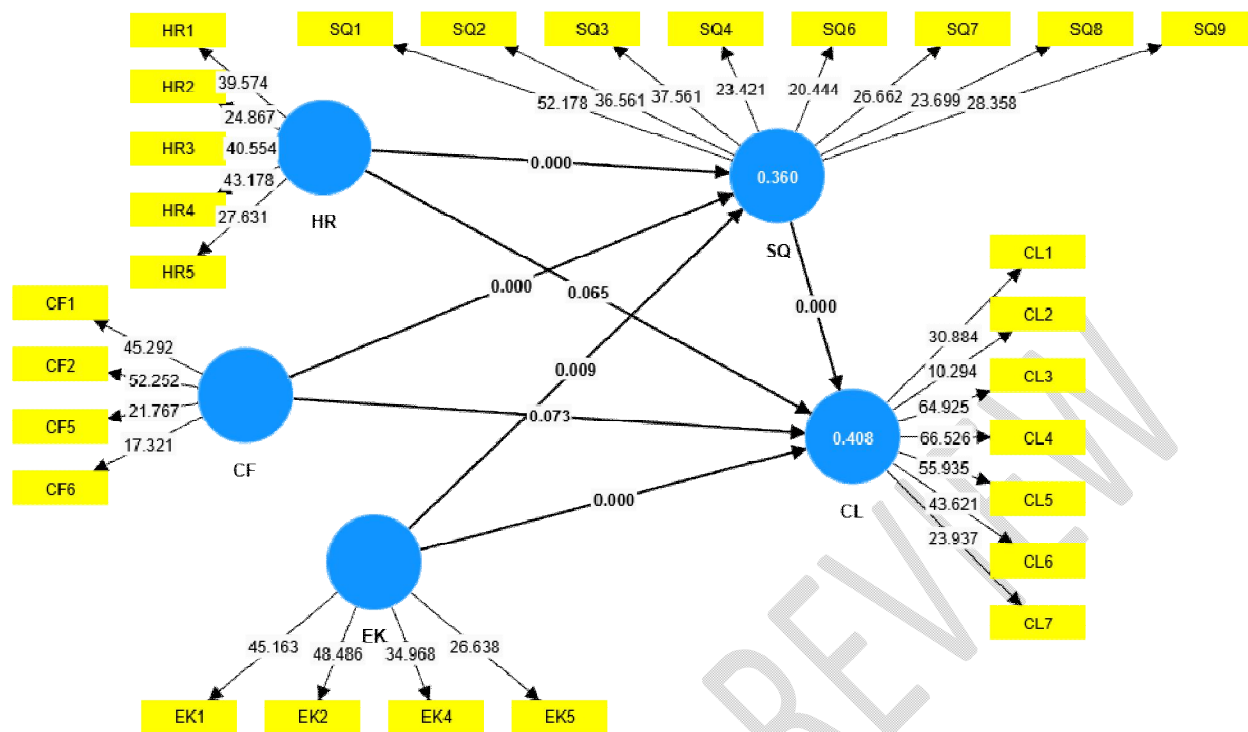


Fig 2 : Structural Model

Table 3: Direct Relationship

Relationship	β	T values	P values	Decision
CF -> CL	0.078	1.455	0.073	Not Significant
CF -> SQ	0.236	4.072	0	Significant
EK -> CL	0.235	3.555	0	Significant
EK -> SQ	0.143	2.361	0.009	Significant
HR -> CL	0.101	1.513	0.065	Not Significant
HR -> SQ	0.332	5.105	0	Significant
SQ -> CL	0.372	5.476	0	Significant

Structural model measures the causal association between the constructs. So, Hair et al., (2017) recommended applying the bootstrapping method with 5000 resampling for assessing the significance of hypothesized model. So, Table 3 shows that CF -> CL ($\beta=0.078$, $t=1.455 < 1.64$, $P=0.073 > 0.05$) is insignificant, CF -> SQ ($\beta=0.236$, $t=4.072 > 1.64$, $P=0.000 < 0.05$) is significant. EK -> CL ($\beta=0.235$, $t=3.555 > 1.64$, $P=0.000 < 0.05$) is significant, EK -> SQ ($\beta=0.143$, $t=2.361 > 1.64$, $P=0.009 < 0.05$) is significant, HR -> CL ($\beta=0.101$, $t=1.513 < 1.64$, $P=0.065 > 0.05$) is insignificant,

HR -> SQ($\beta=0.332$, $t=5.105>1.64$, $P=0.000<0.05$) is significant, SQ -> CL ($\beta=0.372$, $t=5.476>1.64$, $P=0.009<0.05$) is significant.

Table 4: Indirect Relationship

Relationship	b	T values	P values
CF -> SQ -> CL	0.088	3.161	0.001
EK -> SQ -> CL	0.053	2.177	0.015
HR -> SQ -> CL	0.123	3.706	0

The mediating results show in Table 4, CF -> SQ -> CL($\beta=0.088$, $t=3.161>1.64$, $P=0.001<0.05$) is significant, EK -> SQ -> CL ($\beta=0.053$, $t=2.177>1.64$, $P=0.015<0.05$) is significant and HR -> SQ -> CL($\beta=0.123$, $t=3.706>1.64$, $P=0.000<0.05$).

Discussion

The findings of this study indicate that the application of TQM can positively influence the service quality of private banks. This outcome aligns with the prior research undertaken by Psomas and Jaca (2016). Prior research and the current study indicate that the introduction of TQM enhances organizational performance, including financial outcomes, service quality and efficiency in operations (Psomas&Jaca, 2016). The results indicate that an enhancement in the quality of HR development positively influences the adoption of TQM inside the firm. Likewise, enhanced staff knowledge inside the organization will influence the adoption of TQM. Investigation in small service organizations in Malaysia has demonstrated that the introduction of TQM considerably enhances customer happiness and the quality of service (Ooi et al., 2011). The level of service offered by the bank to its customers would enhance, supported by superior human resource quality and effective HRM. Additionally, Customer Focus is a significant aspect in the adoption of TQM (Psomas&Jaca, 2016). A customer-centric perspective posits that the quality of a firm will eventually be assessed by the customer. Companies that actively listen and strive to exceed consumer expectations will serve their clientele more effectively. Furthermore, a customer-centric organization will engage customers in their product creation process. Flynn et al. (Herzallahah et al., 2014) assert that customer improvement for service innovation mitigates future potential risks inside the production process. Involving the consumer in this manufacturing process will yield the service that satisfies their needs.

The findings indicate that service quality significantly enhances customer loyalty in government banks. The study's findings align with those of prior research by Lin (2012), which indicates that multi-channel service quality, as backed by the SERVQUAL dimensions, significantly influences consumer loyalty. Customers that perceive high service quality will remain loyal to the bank. They exhibit a less propensity to switch banks, so demonstrating their commitment to the institution. The results of this study align with the prior research undertaken by So et al. (2016), whose shown that service quality significantly influences loyalty. Three main elements contribute to service quality: personnel responsiveness in customer service and the banking culture that enhances client comfort. All of those variables will influence client loyalty. Banks should regard this as a significant consideration, since proper execution could result in savings on their promotional spend. Moreover, a committed customer can serve as an effective promoter of the bank's products and services. When a consumer exhibits loyalty to a bank, they are more inclined to only utilize the services or products provided by that bank, rather than switching to or engaging with other financial institutions (Kotler & Keller, 2012).

Conclusion

The findings of this study indicate that the application of TQM, emphasizing three dimensions—of TQM, customer focus, and employee Knowledge and HR can favorably influence bank service quality.

This study indicates that in implementing TQM, private banks should proactively enhance HR development, client orientation, and employee knowledge. These three could favorably contribute to the enhancement of bank service quality. To enhance staff expertise, the bank should implement training programs, coaching, and information-sharing initiatives inside the workplace. Consequently, superior service quality enhance loyalty. Secondly, the bank should priorities enhancing employee responsiveness in addressing client issues during their interactions. This will enhance the excellent client experience. Thirdly, banks must not compromise the quality of their technology in order to help their customers. The advancement of digital technology allows customers to access banks without limitations of time or location. Technology enables customers to obtain information more rapidly and enhances their accessibility to banking services. These are also regarded as significant from the customer's

perspective. The investigation also has limitations. The forthcoming study ought to examine all facets of TQM. This will assist the organization in uncovering the complete implementation of TQM. This study advises future research to reference Voon et al. (2014) regarding the execution of TQM, that encompasses total staff involvement, teamwork, empowerment, and dedication and backing from top management. Furthermore, Talib et al. (2013) employed an alternate dimension that encompasses additional characteristics specifically designed for the banking business. However, the consequence of utilizing those aspects is to engage not only the consumer but also the bank's employees. Finally, subsequent research could be enhanced by broadening the geographical scope and diversifying the types of banks examined. Future research should encompass every aspect of banking sector in Iraq, if feasible. Furthermore, future research could enhance the reach of the bank to encompass more than just banking institutions.

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