LINKING SERVICE QUALITY, CLIENT SATISFACTION AND LOYALTY TOWARDS AUDIT FIRMS IN MALAYSIA

Mohamad Fazzarudin Mohamad Sabri a, Aslinda Ramely b

aSchool of Accountancy, Universiti Utara Malaysia, Malaysia
Email: fazzadin@gmail.com
bSchool of Tourism, Hospitality and Environmental Management, Universiti Utara Malaysia, Malaysia,
Email: asmahany@uum.edu.my

Abstract

The aim of this paper to propose a conceptual model that illustrates how service quality leads to client satisfaction, which in turn leads to client loyalty. According to the service quality model, it is argued that the customer exists in two parts, namely as perceptions and expectations. The five dimensions of service quality, i.e. reliability, responsiveness, assurance, tangible and empathy were used to explain in theoretically between the roles of these variables in the relationship. Client satisfaction effects service quality and client loyalty relationship. The conceptual significant and how it touches the relationship are discussed. The limitation of the study is this paper only focused on the five dimensions of service quality while ignoring other aspects that also have a significant contribution to client loyalty. The proposed model can be used by audit firms or other managements to perform better about their service quality due to its ability to influence customer satisfaction that lead to customer loyalty.

Keywords: Service quality, client satisfaction, client loyalty and Auditors

INTRODUCTION

Service quality is a fundamental key for companies to survive (Storbacka, Strandvik, & Grönroos, 1994) and gain competitive advantages (Groonroos, 1983). In fact, it merely happens if companies can offer the best service quality to customers. Also, past studies have shown that the three elements of service quality (Parasuraman, Zeithaml, & Berry, 1994), satisfaction (Oliver, 1980) and loyalty (Lewis, 1994) were essential to firms.

Companies realize that customer satisfaction and loyalty is one of vital aspect to remain them in the market. Unfortunately, there are still many mistakes, and unresolved problems by company take place during the process of service delivery (Hansen, 2014). Failure to execute the best possible service attributed customer expectations is more than the actual services that they receive (Coelho & Henseler, 2012; Noyan & Şimşek, 2014). Subsequently, due to close the problem from further prolonged, firm need to understand how to predict customers’ requirement rather than to respond to customer dissatisfaction.

To date, many companies such as audit firms have substantial proliferation in the market, especially in Malaysia. According to Price water House Cooper (2014), approximately 470 Small-Medium Practitioner (SMPs) are available in Malaysia, and the number increases to around 32 percent compare to the percentages in 2012. Hence, to ascertain that they can succeed in the market, high-quality of service should be attached when performing audit process (Sutton, 1993). After taking these factors into consideration, the result could heighten company’s performance (Rizan, 2010) and lead to customer's loyalty (Jamal & Anastasiadou, 2009), and consequently, engender more profit (DeRyuter, Martin, & Bloemer, 1998).

With regards to service quality in perspective of auditing, DeAngelo (1981) has pointed out in his study that factors such as the size of a firm contributed as the proxy of audit quality due to company
expertise and technology of employees. Furthermore, the previous study by Lennox (1999) and Moizer (1997) investigated the size of the firm as a proxy to audit firm, as well as examined the characteristic of audit quality about customer satisfaction. The study showed that the quality of audit service is all about positive interaction between audit firms and their audit committee, and at the same time, giving valuable feedbacks and which responsive towards the clients need when performing the audit task.

Due to the lack of the study in these areas (i.e. service, quality, client satisfaction and client loyalty), particularly in the audit firm's perspective. This paper topic will, therefore, is to propose a mediation model to account for the relationship between service quality and client loyalty towards audit firms in Malaysia. The discussion of about audit service quality is including audit and non-audit service for measuring service quality offered by audit firms. Furthermore, a study by Haron, Yahya, Ismail, and Lee (2012) has found that 75 percent of SMEs in Malaysia have used non-audit service in the same audit firms to ensure their business becomes smooth as planned. Moreover, at least 80 percent out of them (viz. SMEs) had still appointed the same auditor for more than five years. Thus, satisfaction is the most important aspect for the client to remain and become loyal.

The paper proceeds as follows; the first section provides a quick overview of service quality, client satisfaction, and loyalty. The second section presents the past studies that relate to this topic. The third part explains about research framework and proposition development. The discussion and conclusion of this study are elaborated in the fourth section.

**LITERATURE REVIEW**

**Service, service quality, customer satisfaction, and customer loyalty**

Prevalently, the concept of services comes from business literature. The previous study by Storbacka, Strandvik, and Grönroos (1994) has identified services as an interaction between suppliers and customers that resulted satisfied or unsatisfied both parties. Meanwhile, the famous definition of service quality is with how the service received or offered by companies can maximize customer satisfaction (Parasuraman et al., 1985). For instance, Parasuraman, Berry, & Zeithaml (1991) have developed a measurement scheme of service quality that consists of five dimensions of reliability, responsiveness, assurance, tangibles, and empathy. This measurement is called as SERVQUAL. The SERVQUAL instrument normally used to measure customer expectations and perceptions and identifies the gap exists among customers (Shahin & Samea, 2010). If customer perceptions are more than expectations, it means that the customer is satisfied with the current service offered by companies.

The SERVQUAL instrument is also apt for other industries, especially for those companies where primary activities are based on providing services. For example, banking (Oginda, 2012), audit firms (Ismail et. al. 2006), hotel (Al-Rousan & Abuamoud, 2013), automobile (Lin & Wang, 2006), casino (Prentice, 2013), hospital (Zarei et. al. 2012). Even though many studies have been conducted, there is still no uniformity regarding the concepts of service quality. Al Khattab and Aldehayyat (2011) have argued that the SERVQUAL still lacks both in depth and width of service offers. Hence, Cronin and Taylor (1992) have also proposed an amended version of SERVQUAL to service performance (e.g. SERVPERF) as an alternative. Besides that, non-difference model (Brown, 1993) also was developed to measure service quality. The main reason of no uniformity in the conceptualization of service quality is possible by different studies would focus on a different angle (Lewis, 1994).

SERVQUAL comprises of 22 items measurement and is classified into five dimensions of service quality, namely reliability, responsiveness, assurance, tangibles, and empathy. Reliability refers to capabilities to perform the promised to customers accurately, successfully and dependable. On the other hand, reliability also refers as works to mitigate and maintain error-free records. Responsiveness refers to the willingness to aid customer and offers the best service (i.e. prompt response and maintain professionalism). Assurance refers to expertise, knowledge, etiquette, courtesy of the staffs to build customers’ trust and confidence. Tangible applies to physical facilities such as technology, software while performing the service. Finally, Empathy refers to spiritual practices (i.e. individual attention, caring, love and patient).

Customer satisfaction is one of the most important aspects that allow companies to survive in the current market. Satisfaction is something that involves the feeling of someone; it can describe as whether
customers are happy or disappointed after service has performed (Bairi & Manohar, 2011). Customers satisfaction can only be produced if a company able to anticipate what consumers desire from their services (Dominici & Guzzo, 2010). He also admitted that customer satisfaction is perhaps driven by experience or their expectation toward services. In a study by Cronin and Taylor (1992), the experience is said to have a significant value to create an intention to the buyback. The study by Sun and Kim (2013) also agrees with this idea and found that if a customer is satisfied with current service, the company also have the tendency to maintain consummation customer pattern and at the same time able to entice new customer for using their service. Also, Oliver (1980) has developed expectation-disconfirmation model to articulate customer satisfaction. Subsequently, a positive disconfirmation indicates that customers are satisfied with the service provided while negative disconfirmation shows customer are dissatisfied with the services that they received. In other words, dissatisfaction arises when the result (i.e. product or service) do not meet customer expectations and vice versa.

Loyalty consists of two dimensions: attitude and behavioural (Chen McCain, Shawn Jang, & Hu, 2005). Attitude is about an individual's feeling or sense of products and service. In contrast, behavioural is viewed as a continuous relationship between companies and customers. Nowadays, the behavioural dimension is more preferred compared to the attitude dimension (Chen & Lee, 2008). According to Clottey, Collier, and Stodnick (2008), loyalty just like brand and image related to intangible goods. Loyalty leads to customers towards repetitive purchase behavioural (Lin & Wang, 2006; Sun & Kim, 2013). With regards to loyalty, Sunny-Hu, Huang, and Chen (2010) stressed that the value of true loyalty is not just contingent on buyback intention, but it is more about commitment. The tremendous impacts of customer loyalty can lead the company to generate more profit (Weiwei, 2007). Furthermore, loyalty also acts as a catalyst in build long-term relationship between them (Oginda, 2012). As a conclusion, service quality and customer satisfaction are contribution factors that affect customer loyalty.

### Service Quality in the Perspective of Audit Firms

Auditing is a process to collect, assess and evaluate evidence to investigate and determine the report as well as to issue the financial statement audit and to be viewed as fair and without biased judgments (Arens, Elder, & Beasley, 2003). Moreover, audit opinion (i.e. qualified or a qualified) of financial statement audit will be determined by auditor either the financial statements of a company show a true and fair. Audited financial statements are crucial not just to fulfil the requirement, but also as a way to build confidence among stakeholders. Audit firms provide audit services as the primary services, but they also provide non-audit services such as secretarial, taxation and consultant works to the clients.

Based on past studies by Francis (2004) and Hoitash, Markelevich, and Barragato (2007), the service quality offered by audit firms comes from how they deliver the audit tasks. In contrast, DeAngelo (1981) views audit quality as the ability of auditors to reveal and report unethical attitudes (i.e. breach) such as fraud in the company accounting system. However, to detect violation that occurred in the financial statement, it depends on the capabilities and technical audit firm itself (Sutton, 1993).

To the researcher's knowledge, the service quality in the perspective of auditing and marketing is different once the comparison is being made. This is because according to DeAngelo (1981) audit quality is looked upon via capabilities of auditor itself when performing audit service; whilst Parasuraman et al. (1985, 1988 and 1991) view service quality from the customer perspective, and it is based on customers' perception and expectation towards the service provided by a company. Nevertheless, past studies found that there are two proxies that influence the audit firms and to retain clients namely (1) audit size and (2) audit fees (Moizer, 1997; Sutton, 1993; Svanström, 2013). Hoitash et al. (2007) supported this argument and claimed that it is due to the successful establishment of the Big4 as well as having more audit clients that allow the Big4 to perform high-quality service and have the ability to detect and report any breach. Failure to report or discovery any error will jeopardize their reputation. Also, Lennox (1999) also highlighted in his study that the Big4 has more clients has a high probability of producing high-quality service to maintain their reputation, brand name and build a long-term relationship with their clients. Factors like industry expertise (i.e. provide proper training to staff) and technical capabilities (i.e. using the latest technology, update software) are crucial when performing audits tasks as a way to gain and retain the client.
CONCEPTUAL FRAMEWORK AND PROPOSITION DEVELOPMENT

Figure 1: Conceptual Model of Linking Audit Service Quality, Client Satisfaction, and Loyalty

The research model in Figure 1 shows how client's satisfaction on the audit service quality offered by audit firms when performing audit task leads to client loyalty. Based on the proposed research framework, several hypotheses were developed to explore the relationship between audit service quality on the client's satisfaction and loyalty.

Oliver (1980) developed an Expectancy-Disconfirmation Model to investigate customer satisfaction. This model received the widest acceptance among researchers (Bairi & Manohar, 2011; Rizan, 2010). This model, in general, the discrepancy that exists between what a customers expect and desire. Overall findings from past studies showed that customer expectations exceed customer perceptions, and that could lead to customer dissatisfaction. Customer dissatisfaction indirectly indicates the existence of a gap in service quality (Bongsu, 2004; Chodzaza & Gombachika, 2013; Ismail, Haron, Ibrahim, & Isa, 2006; Parasuraman, 1994). Consequently, this leads to the first proposition, which is as follows:

\[ P_1: \] A gap exists between expectations and perceptions of the client on the service quality supplied by audit firms in Malaysia.

Several empirical studies have proven that service quality is outstanding in providing customer satisfaction (Cronin, Brady, & Hult, 2000; Ismail, Madi, Abdullah, & Francis, 2009; Malik, 2012; Mohamad & Alhamadani, 2011). Also, studies by Kiran (2010), Shanaki, Ranjbar, and Shakhsian (2012) found that a relationship exists between service quality and customer satisfaction. Subsequently, a higher service quality provided have the tendency to lead to customer satisfaction. Thus, the following second proposition was included in the study as below:

\[ P_2: \] The higher the service quality provided by the audit firms, the higher the clients’ satisfaction can be formed.

Based on a study by Kyle, Theodorakis, and Lafazani (2010) service quality has shown a significant impact on customer loyalty. On the other hand, research by Kiran and Diljit (2011) found that the five dimension of service quality plays a major role in earning customer loyalty. Furthermore, it can be summarized that there is a positive relationship between service quality and customer loyalty (Bongsu, 2004; Hu, Cheng, Chiu, & Hong, 2010; Jamal & Anastasiadou, 2009; Oginda, 2012; Prentice, 2013). Usually, clients expect a high level of service offered by audit firms. In this case, audit firms need to provide the best audit quality at all time, continuously and consistently to their clients. As a result, the best quality offered by audit firms allows clients to become loyal. Hence, this study issues on the following third proposition:

\[ P_3: \] The higher the service quality provided by the audit firms, the higher the probability of loyalty can be formed.

A company’s success often depends on how far they can design, customer satisfaction and gain customer loyalty. Previous studies by Deng, Lu, Wei, and Zhang (2010), Huo and Xu (2011), Liao & Li (2011), Martisuite, Vilutyte, and Grundey (2010), Santouridis and Trivellas (2010) found that the intention to buyback and service quality have a link to customer satisfaction. For example, Faullant, Matzler, and
Füller (2008) revealed that a total of 6172 Alpine ski resort customers showed that customer satisfaction has a positive influence on customer loyalty. On this basis, the paper proposes that client satisfaction has a positive implication for client loyalty:

\[ P_4: \text{Client satisfaction is positively related to client loyalty} \]

Many previous studies have found the mediating effects of customer satisfaction on service quality and customer loyalty.\(^1\) For instance, Akbar and Parvez (2009) studied on 304 Telecommunication in Bangladesh and found that customer satisfaction acted as a mediating role between service quality and customer loyalty. On the other hand, Ismail, Haron, Ibrahim, and Isa, (2006) found that client satisfaction only partially mediates with reliability dimension and customer loyalty. As a conclusion, previous studies have concluded that customer satisfaction with service quality has enormous influence that can lead to customer loyalty. Therefore, the paper predicts that client satisfaction is strong in the transmitting of the positive effect of service quality on client loyalty. So, the following fifth proposition is presented:

\[ P_5: \text{Client satisfaction mediates relationship between service quality and client loyalty} \]

**DISCUSSION AND CONCLUSION**

The paper assessed the relationship between service quality, client satisfaction, and client loyalty by using the SERVQUAL model. In this study, the researcher developed a conceptual model for understanding how audit service quality is related to client loyalty (Figure 1). In particular, the paper highlights several aspects of the model again. First, within service quality is the theoretical difference between expectations and perceptions of clients. Second, service quality is proposed to have an influence on client satisfaction, and it (i.e. satisfaction) also serves as mediating to the service quality and client satisfaction relationship. Third, service quality is expected to impact on client loyalty. Lastly, client satisfaction is proposed to have a positive effect towards client loyalty.

Although it is difficult to close the gaps (i.e. expectations and perceptions), a company should always improve their present service quality. As a result, the manager and firm able to perform well when delivery, service quality to their customers, which subsequently leads to customer satisfaction and loyalty.

**IMPLICATION AND FUTURE RESEARCH**

The paper assessed the relationship between service quality, client satisfaction, and client loyalty. The discussion of this study has important implication for the management, particularly for those firms that main activities offer the services. Thereunto, the paper postulates the usefulness of SERVQUAL as a proper measurement in the auditing perspective.

The managers should understand customer needs and endeavour to allay the dissatisfaction exist among them. Then again, the management should be aware of the importance of delivering exclusive and superior service to the customers. Nowadays, many business practices believe that by offering an excellent service quality is the most a powerful decoy to entice and retain consumer. Besides, it makes the enterprise can dominate markets and gain competitive advantages. At the end of results, companies able to increase their market share, generate more margin, reduce costs of operation and make it firms boost efficiency and effectiveness of business process.

For the future researcher, some avenue would like to suggest. In the present study, the researcher purely applied five dimensions of service quality as the independent variable. While, other researchers, can add the new variable as an independent variable due to measure client satisfaction and loyalty. For example, investigate the effects of audit firm size, audit fees, audit tenure, switching cost, social value, emotional value, perceived value. Moreover, for future researchers also can be done by

concentrating upon one attribute in the five dimensions of service quality. The last suggestions are by adopting another measurement of service quality such as LODGQUAL (Getty & Thompson, 1994), SERVPERF (Cronin & Taylor, 1992) or Non-Different (Brown, 1993) and test it either has an effect on the relationship between customer satisfaction and loyalty.

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