

Customers' Perception on Service Quality towards Satisfaction: An Application of SERVPERF in State Sector Banks in Sri Lanka

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Abstract

Amid intense competition and the dynamic business environment, surviving in the market has become a key challenge for many service organizations. Service quality has become one the key tools for surviving and gaining competitive advantage in banking industry, since its offering comprised mainly with intangible elements. Thus service quality has taken considerable interest in marketing literature. This study endeavored to apply 22 item SERVPERF Scale to measure consumers' perceived service quality in state banks and its impact on customer satisfaction in Sri Lanka. Multi-stage sampling procedure was used to obtain 150 respondents from three state sector banks in Ratnapura district. The primary data were collected through an interviewer administered questionnaire. The results revealed that consumers have higher level of positive perception of SERVPERF dimensions. All dimensions contributed significantly -i.e. 'reliability', 'assurance', 'empathy', 'tangibles' and 'responsiveness'- towards the service quality in state banks in Sri Lanka. Further it revealed that there is a strong positive linear relationship between overall service quality and customer satisfaction in state banks in Sri Lanka. The study confirmed that the scale SERVPERF is applicable for measuring the service quality of the banking sector in Sri Lanka.

Keywords: Service quality, Customer satisfaction, SERPERF, Sri Lanka

1. Introduction

The services sector contributes significantly for Gross Domestic Production (GDP) in most countries, including low income countries and it has contributed total of 63.6 % of the world GDP in the year 2012. The services industry in Sri Lanka has contributed nearly 60 % of the country's GDP and has contributed 61.8 % to the overall economic growth expanding at 8.6 % in 2011 (Central Bank, 2011). Banking and financial services are playing a significant role in the service sector (Mishkin, 2001). In the fourth quarter of 2012, Banking, Insurance and Real States sectors have contributed to the country's GDP by 8.9 % (Central Bank, 2011) and it is an increment of 2.3 % compared with the previous quarter. Of 15 % the overall service sector contributed by Banking, Insurance and Real States in 2011. Banks play a vital role within the financial system as they provide liquidity to the entire economy. The banking sector in Sri Lanka comprises of Licensed Commercial Banks (LCBs) and Licensed Specialized Banks (LSBs).

The LCBs are the single most important category in the entire financial system as it dominated 48 % while LSBs accounts for 8 % (Central Bank of Sri Lanka, 2012). The sector remains concentrated and largely dominated by state sector banks while it represents over 50 % of the assets of the banking sector in Sri Lanka (Fitch Rating, 2010). Moreover the two largest LCBs and the largest LSB are owned by the state sector and they possess 21 %, 15 % and 11 % of the sector's assets respectively at end 2010 (Fitch Rating, 2010).

Differentiating a bank from one to another has become a challenge to many service providers as its offering greatly consisted with intangible elements. Customers heavily depend on experience and credence qualities when they evaluating their service offering. Thus it is very much difficult for both service provider and customer to decide on the quality of such a product. With the intense competition and rapidly changing customers' needs, service organizations are eagerly searching for strategies for delivering unique customer experiences. The situation has become worse as most of service organizations, especially banks, are offering similar products and services (Silva, 2009) and not giving their customers relatively a superior value offering for selecting one brand from another. Hence customers switch their banks easily while causing a major challenge for the service providers. Generally state sector banks are vulnerable to this situation as they utilize lack of marketing muscles for their operations compared with the private sector banks in Sri Lanka.

The ability of banks to continue and survive in the marketplace profoundly depends on service quality (Ragavan and Mageh, 2013). The perceived quality plays an important role in industries with high customer involvement, such as banking (Angur et al., 1999). Hence service quality has become a key for competitive advantage (Almossar, 2001). Provision of service quality paves the way for customers' satisfaction, customer loyalty, new customer attraction, increased market share and profitability for the banking sector (Kumari and Rani, 2011). The possibility of customer satisfaction increases, as services quality improves (Arasli, et al., 2005) and increased customer satisfaction directs to behavioral outcomes, such as customer loyalty, customer retention, relationship marketing, positive word-of-mouth, and increased customer tolerance (Goode and Moutinho, 1995; Newman, 2001). Due to the intangible nature of the service offering it is very much difficult to define and measure (Singh and Khurana, 2011). Majority of studies have utilized SERVQUAL for measuring bank service quality and only a few number of studies have utilized alternative methods for measuring bank service quality (Lee, 2011). Thus, the aim of this study is to measure consumers' perceived service quality in state banks by using the measurement of SERVPERF and banking service quality impact on customer satisfaction in Sri Lanka.

2. Literature Review

2.1 Service Quality

The organizational performance, success, and survival are greatly determined by the service quality in the banking sector (Aktar, 2011). Service quality is interpreted as perceived quality in the service literature and it provides the meaning of a customer's judgment about a service (Culiberg and Rojšek, 2010). Many scholars have defined the concept of service quality in different ways and have suggested different ways of measuring it. Service quality is one of the mostly researched and debated topics in recent research literature (Ananth et al., 2010). Haffman and Batesan (2010) defined service quality as 'an attitude formed by a long-term, overall evaluation of a firm's performance'. Lovelock et al. (2011) defined service quality as 'consistently meeting or exceeding customer expectations'. Grönroos (1984) defines the perceived quality of a service is the result of an evaluation process in which customers compare their expectations of service delivery and its outcome to what they expect. Parasuraman et al. (1985) defined service quality as 'the global evaluation or attitude of overall excellence of services'. They defined operationalized service quality as the extent of discrepancy between customers' expectations or desires and their perceptions. Parasuraman et al. (1985) proposed a scale called SERVQUAL and it is a generic measurement tool that has been utilized extensively in assessing service quality in a wide variety of service settings. The scale contains with 22 items for evaluating both consumer's perception and expectation of service quality. Parasuraman et al. (1985) initially identified 10 dimensions used by consumers in evaluating service quality and finally consolidated them into five broad dimensions. SERVQUAL refers to five service quality dimensions (Parasuraman et al., 1988):

- Reliability (The ability to perform the promised service dependably and accurately)
- Responsiveness (Willingness to help customers and to provide prompt services)
- Tangibles (Physical facilities, equipment, and appearance personnel)
- Assurance (Knowledge and courtesy of employees and their ability to convey trust and confidence)
- Empathy (Caring, individualized attention the firm provides its customer)

Though SERVQUAL has been utilized widely by practitioners it has been criticized on various conceptual and operational grounds. Some of the criticisms regarding SERVQUAL were the universality of the scale (Cronin and Taylor, 1992), appropriateness of utilizing it in different cultural context (Carman, 1990; Cui et al., 2003), focusing mainly on the service delivery process (Mangold and Babakus, 1991), and the questionnaire length due to measuring perception and expectation separately as different scores (Carman, 1990). Cronin and Taylor (1992) developed a performance based only measurement called SERVPERF for assessing service quality as a way of overcoming some criticisms encountered by SERVQUAL. SERVPERF only evaluates customer's perception of the service delivered while SERVQUAL evaluates both customer's expectation and perception of the service offer. SERVPERF assumes that it is unnecessary to measure expectations directly from customers as they automatically provide their ratings by comparing performance perceptions with expectations (Culiberg and Rojšek, 2010). SERVPERF scale is identical to the SERVQUAL scale in its dimensions and structure. Empirically SERVPERF has found superior to SERVQUAL scale (Jain and Gupta, 2004; Wang and Shieh, 2006) and it has been favored over the SERVQUAL (Babakus and Boller, 1992; Gotlieb, et al., 1994).

2.2 Customer Satisfaction

Organizations have recognized service quality and improved customer satisfaction as the key differentiators to compete more effectively in banking industry in Sri Lanka (Silva, 2009). Customer satisfaction can be defined as the extent to which a product's perceived performance matches a buyer's expectations (Kotler and Armstrong, 2012). There is a strong positive relationship between service quality and customer satisfaction (Parasuraman et al., 1988; Bahia and Nantel, 2000). The two concepts are fundamentally different but they have certain things in common (Brady and Cronin, 2001). Perceive service quality is a component of customer satisfaction (Zeithamal et al., 2009) and it determines customer satisfaction (Cronin and Taylor, 1992; Wong et al., 2003). The hypothesis to be tested in this study is given below as:

H1. There is a relationship between service quality and customer satisfaction in state banks in Sri Lanka.

3. Study Design and Methods

3.1 Sample

Population of the study is the customers who are banking with state banks in Ratnapura District. A Multistage sampling procedure was used to select the sample of the study. As phase one, three Divisional Secretariats (DS) in Ratnapura District were selected randomly out of 17 DS, they were, viz. Balangoda DS, Ratnapura DS and Pelmadulla DS. Subsequently three state banks were randomly selected from each selected DS to study the consumers' perception of service quality in state banks. As the second phase, three branches from each bank -i.e. total of nine branches- were randomly selected for the primary data collection. As the final phase, the data were collected on a weekday in January 2013 from 9.00 a.m. to 3.00 p.m. Every one hour 3 customers were systematically selected from each branch for data collection.

3.2 Study Variables, Questionnaire Design and Data Collection

This study employed Cronin and Taylor's (1992) 22 items SERVPERF instrument for data collection (see Table 1). The questionnaire was slightly modified as it translated into Sinhala (mother tongue of Sri Lanka) to ensure suitability for the research context. It was comprised of two parts and part A contains questions about personal profiles of the respondents including gender, age, occupation, education level and income level. Part B includes 23 perception based only items that derived from five dimensions, viz. tangibles, reliability, responsiveness, assurance and empathy. One extra item was included at the end of the questionnaire to assess the overall satisfaction of consumers regarding the banks' service quality. A five-point Likert scale ranging from "Strongly Agree = 5" to "Strongly Disagree = 1" was used to evaluate the level of satisfaction towards the service quality of state banks. The questionnaires were distributed to a sample of 162 customers of nine branches of three state banks who visited the selected branches just before the data collection and those who were interested in filling up questionnaires. 162 completed questionnaires were received and 12 questionnaires were excluded due to missing data. The remaining 150 questionnaires were used for the study with an effective response rate of 93 % of the total sample.

4. Results and Discussion

4.1 The Reliability Statistics

To examine reliability of the scale dimensions, the Cronbach's Alpha was calculated, as it considered as the most widely accepted reliability measure. Table 3 provides the Cronbach's Alpha (α) for the five dimensions. As all the vales of Cronbach's Alpha for each dimension is above 0.7, thus it can be concluded that the measures used here are consistent enough for the study.

Table 1. Service quality variables and items used in the study with the reliability measures

Dimensions	Items	Cronbach's Alpha
Tangibles	1) The bank has modern-looking equipment.	0.884
	2) The bank's physical facilities are visually appealing.	
	3) The bank's employees are neat appearing	
	4) Materials associated with the service (such as forms, brochures, statements etc.) visually appealing at the bank.	
Reliability	1) Bank services are performed within the promised time.	0.864
	2) When I have a problem, the bank's employees show sincere interest in solving the problem.	
	3) The bank correctly performs the service right the very first time.	
	4) The bank provides its service right the first time.	
	5) The bank insists on error free records.	
Responsiveness	1) In the bank I do not spent much time waiting in line.	0.857
	2) Bank employees are always willing to help.	
	3) Bank employees are quick in eliminating potential errors.	
	4) Bank employees quickly respond to my requests.	
Assurance	1) Bank employees are trustworthy.	0.877
	2) I feel safe in my transactions with the bank.	
	3) Bank employees consistently courteous towards me.	
	4) Bank employees have the knowledgeable to answer my questions.	
Empathy	1) The bank provides me an individual attention.	0.907
	2) The bank has convenience operating hours to my needs.	
	3) The bank has employees who give me personal attention.	
	4) The bank considers my wishes and needs.	
	5) Bank employees show understanding of my specific needs.	

Source: Study survey (2013).

4.2 Perception of Customers towards Service Quality of State Sector Banks

Table 2 reveals that the perception of customers for overall service quality in state banks is at satisfactory level as the mean values of the dimensions is above 3. The highest measures of centre (mean and median) are scored by assurance followed by tangibility, reliability, and responsiveness. Hence the dimension assurance is superior to the other four dimensions. Thus it points out that state banks are performing at satisfactory level in trustworthiness of their employees and as a bank, employees' courteousness towards consumers, and their knowledge to answering consumers' questions. The least mean score (3.36) is noted for empathy. This indicates that state banks may be performing relatively low in providing individualized service to their customers, understanding individual customer's needs and wishes, and operating in inconvenience hours.

Table 2. Mean and median scores for service quality dimensions

Service quality dimensions	Mean score	Median Score	Standard Deviation
Tangibility	3.78	3.75	0.648
Reliability	3.76	3.80	0.689
Responsiveness	3.59	3.50	0.811
Assurance	3.96	4.00	0.624
Empathy	3.37	3.30	0.690

Source: Study survey (2013).

4.3 Relationship of Service Quality with Customer Satisfaction

In order to observe the individual linear correlation between the customer satisfaction and the each variable under the service quality, Pearson's product moment correlation test was done. For the correlation analysis, the mean scores of each dimension across the items listed in Table 1 were used. According to Table 3, there are positive linear correlations between the each dimension of service quality and customer satisfaction. Moreover Table 3 indicates that the level of significance for each service quality dimension is lower than 0.0001. The highest correlation is observed between reliability and customer satisfaction (0.681) followed by assurance (0.606), responsiveness (0.595), and empathy (0.592) respectively. The lowest correlation is observed between tangibility and customer satisfaction (0.538). As all the coefficients of correlation are positive, it can be concluded that the better service quality leads to the higher level of customer satisfaction.

Table 3. Correlation results between the customer satisfaction and the service quality

Dimensions under service quality	Coefficient of correlation	Sig. (<i>P</i>)
Tangibility	0.538	0.000
Reliability	0.681	0.000
Responsiveness	0.595	0.000
Assurance	0.606	0.000
Empathy	0.592	0.000

Source: Study survey (2013).

Figure 1 display the impact and the linear relationship of overall service quality on customers satisfaction. The overall service quality ($b=0.918$; $p<.05$) has a significant and positive effect on customer satisfaction. The overall service quality was obtained through the mean score across five dimensions under the service quality. This indicates that the customer satisfaction increases as the overall service quality improves. Thus there are enough evidences to support the alternative hypothesis of the study.

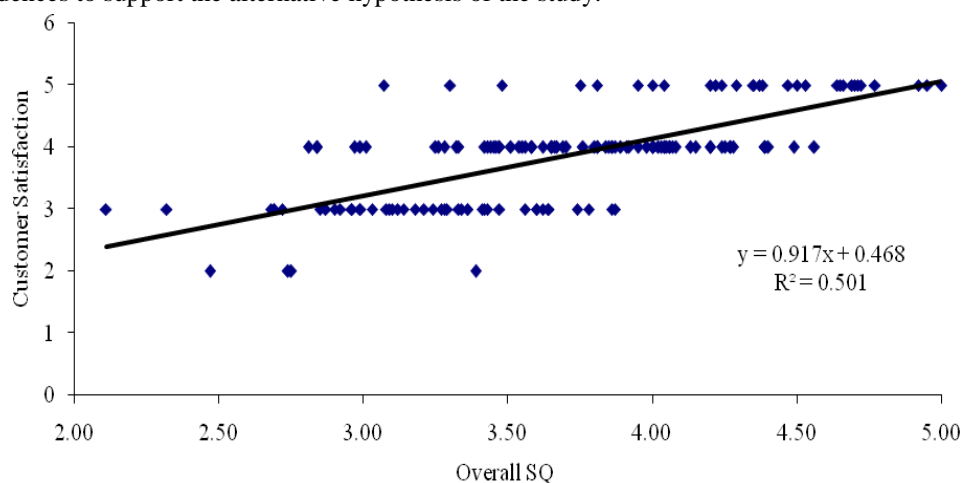


Figure 1.. Liner relationship between overall service quality and customer satisfaction

Furthermore, it's imperative to investigate the relationship between the customer satisfaction in the face of all the dimensions in a single model. The multiple linear regression model was able to capture more than 53% of the total variation of the data (Table 04).

Table 4. Regression results, model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.740 ^a	0.547	0.532	0.522	2.058

a. Predictor: (Constant), empathy, assurance, tangible, reliable, responsive

b. Dependent Variable: customer satisfaction

In this research, we have utilized five dimensions as reliability, assurance, empathy, tangible and responsiveness to determine the customer satisfaction. Due to that, we have to check the multi co linearity among independent variable (Velnampy and Achchuthan, 2013a; Velnampy and Achchuthan, 2012b; Kajanathan and Achchuthan, 2013). Based on our findings, there is no collinearity problem among independent variables. All the tolerance value is well below 1 and VIF is also below 10. Meantime, A Durbin-Watson close to 2.0 is consistent with no serial correlation, while a number closer to 0 means there is, probably, serial correlation. In our study, DW has the value as 2.05 which is closer to 2.0. Thus, there is no serial correlation between the variables which have been used in this study.

As per the multiple regression results, customer satisfaction is positively influenced by reliability, assurance and empathy. In contrast, customer satisfaction is not significantly influenced by tangible and responsiveness.

Table 5. Coefficients of the multiple linear regression analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		Collinearity Statistics	
	B	Std. Error	Beta			Partial	Part	Tolerance	VIF
1(Constant)	0.141	0.318		0.445	0.657				
tangible	0.041	0.100	0.035	0.415	0.679	0.035	0.023	0.441	2.269
reliable	0.457	0.106	0.413	4.312	0.000	0.338	0.242	0.343	2.915
responsive	-	0.104	-0.115	-1.043	0.299	-0.087	-	0.258	3.874
	0.108						0.058		
assurance	0.283	0.115	0.231	2.465	0.015	0.201	0.138	0.358	2.795
empathy	0.329	0.082	0.298	4.036	0.000	0.319	0.226	0.578	1.732

4.4 Formulation of Sub-dimensions

Table 6 shows the orthogonal factor loadings for the items under the dimension "Tangibles". According to the factor loadings there are two independent sub-dimensions can be seen. The items 3 and 4 make the higher loadings for the factor 1, which can be regarded as "employee-materials" factor. The items 1 and 2 contribute greatly for the factor 2 with the negative signs (the original items have negative impact on the factor). The factor 2 can be regarded as "modern equipment-physical facility" sub dimension of "Tangibles". Altogether these two factors explain more than 77% of the total variation of data. Hence we could readily formulate two sub-dimensions for "tangibles". As noted in table 6 the materials associated with banking service follow the bank's employees appearance. The fact behind this reason could be the close link between these two items. Most of state bank consumers who are needed with banking materials are supplied by service providers or service contact personnel in the bank. Further consumers have perceived the new technologies and new baking facilities introduced by state banks in order to compete with private sector banks.

Table 6. Rotated factor loadings for the items under the dimension "Tangibles"

Tangibles	Factor 1	Factor 2	Communalities
1) The bank has modern-looking equipment.	0.132	-0.921	0.866
2) The bank's physical facilities are visually appealing.	0.484	-0.679	0.696
3) The bank's employees are neat appearing	0.773	-0.361	0.727
4) Materials associated with the service (such as forms, brochures, statements etc.) visually appealing at the bank.	0.888	-0.125	0.804
Variance	1.637	1.455	3.093
% Variance	0.409	0.364	0.773

According to the factor loadings of the items under the dimension “Reliability” two independent sub-dimensions can be formulated (Table 7). The items 1, 2, 3 and 4 make the higher loading for factor 1, which can be regarded as “service” sub-dimension. While the item 5 which can be labeled as “error free records” sub-dimension of reliability, which greatly contributes for the factor 2. In total these two factors explain 77% of the total variation of data. As noted in table 7 consumer perceived human reliability and machine reliability as two separate entities where the most of the human reliability items have been loaded into factor 1 whereas the last item clearly has been loaded into factor 2.

Table 7. Rotated factor loadings for the items under the dimension “Reliability”

Reliability	Factor 1	Factor 2	Communalities
1) Bank services are performed within the promised time.	0.824	0.116	0.693
2) When I have a problem, the bank’s employees show sincere interest in solving the problem.	0.849	0.222	0.771
3) The bank correctly performs the service right the very first time.	0.805	0.175	0.679
4) The bank provides its service right the first time.	0.827	0.163	0.710
5) The bank insists on error free records.	0.195	0.989	0.998
Variance	2.7706	1.0796	3.8502
% Variance	0.554	0.216	0.770

Table 8 shows the rotated factor loadings for the items under the dimension “Responsiveness”. The magnitudes of the factor loadings make two independent sub-dimensions for Responsiveness. The items 3 and 4 make the higher loading for factor 1, which can be regarded as “employees’ quickness” sub-dimension. The items 1 and 2 which can be labeled as “waiting time-willingness to help” sub-dimension of responsiveness, that clearly contributes for the factor 2. In total these two factors explain 83% of the total variation of data. According to the study, the state banks employees have responded speedily to consumers’ requests as well as without making errors when they encountering with consumers. As a result of this consumers’ waiting times for the baking services have been reduced.

Table 8. Rotated factor loadings for the items under the dimension Responsiveness

Responsiveness	Factor 1	Factor 2	Communalities
1) In the bank I do not spent much time waiting in line.	0.227	0.926	0.909
2) Bank employees are always willing to help.	0.539	0.696	0.776
3) Bank employees are quick in eliminating potential errors.	0.911	0.212	0.875
4) Bank employees quickly respond to my requests.	0.750	0.455	0.770
Variance	1.7349	1.5941	3.3290
% Variance	0.434	0.399	0.832

Table 9 displays the orthogonal factor loadings for the items under the dimension “Assurance”. The items 1, 2 and 3 make the higher loading for factor 1, which can be regarded as “secure-employees’ courtesy” sub-dimension. The item 4 makes the higher loading for factor 2 which can be labeled as “employees’ knowledge” sub-dimension. In total these two factors explain 78% of the total variation of data. Hence we could readily formulate two sub-dimensions for “assurance”. As noted the findings of the table 9 employees’ knowledge regarding the baking services has led the state banking sector in Sri Lanka as a secured place for consumers to do their transactions.

Table 9. Rotated factor loadings for the items under the dimension Assurance

Assurance	Factor 1	Factor 2	Communalities
1) Bank employees are trustworthy.	0.901	0.077	0.817
2) I feel safe in my transactions with the bank.	0.702	0.427	0.675
3) Bank employees consistently courteous towards me.	0.735	0.385	0.689
4) Bank employees have the knowledgeable to answer my questions.	0.220	0.949	0.949
Variance	1.8923	1.2373	3.1296
% Variance	0.473	0.309	0.782

Table 10 shows the factor loadings after the Verimax rotation for the item under the dimension “Empathy”. The items 1, 3, 4 & 5 make the higher loading for factor 1, which can be regarded as “personalized service” sub-dimension. The item 2 make the higher loading for factor 2 which can be labeled as “operating hours” sub-dimension. In total these two factors explain nearly 70% of the total variation of data. Hence we could readily formulate two sub-dimensions for “assurance”. Most of the consumers perceived that the state banking sector is providing personalized service for their consumers. This is a revolutionary change in the Sri Lankan state bank sector when it compared with the sector that was existed in few decades back. Besides it is a must strategy for state banks in Sri Lanka compared with private banks in order to survive in the sector. Since the both state and private banks in Sri Lanka have almost similar banking operating hours consumers do not tend to compare the operating hours and they are satisfied with the existing bank operating hours.

Table 10. Rotated factor loadings for the items under the dimension Empathy

Empathy	Factor 1	Factor 2	Communalities
1) The bank provides me an individual attention.	0.767	-0.222	0.638
2) The bank has convenience operating hours to my needs.	0.103	-0.937	0.889
3) The bank has employees who give me personal attention.	0.838	-0.010	0.702
4) The bank considers my wishes and needs.	0.722	-0.266	0.592
5) Bank employees show understanding of my specific needs.	0.590	-0.552	0.653
Variance	2.1697	1.3037	3.4734
% Variance	0.434	0.261	0.695

5. Conclusions

The aim of this study was to measure consumers’ perceived service quality in state banks and its impact on customer satisfaction in Sri Lanka. The mean score values for service quality dimensions were between 3.3 and 3.9. The state banks were found to be superior in providing assurance, tangibility and reliability while good in providing responsiveness and empathy. All the dimensions of service quality indicating relatively higher performance but state banks need to improve customer perception of empathy, since it indicated the lowest measures of centre score value. The results of this study indicated that there is a strong positive individual linear correlation between each service quality dimensions with the customer satisfaction. The dimension ‘reliability’ was the leading determinant of customer satisfaction. This indicated that state banks should perform their services as promised to their customers, correctly right the first time, with error free and showing sincere interest on customers’ problem solving abilities. Moreover it indicated that providing high quality service certainly improves customer satisfaction in state banks in Sri Lanka. The study confirmed that the scale SERVPERF is valid for measuring service quality of other banks in Sri Lanka. The future research may be directed to measure service quality in banking total, comparative analysis on SERVQUAL and SERVPERF scores in banking industry and comparative analysis on SERVPERF scores in different sectors of banks. Researches on service quality in banks should focus more to measure consumers’ satisfaction by using multiple items rather than rely on one item, it may provide comprehensive understanding of consumers’ perception on service quality and their satisfaction. Developing a service quality scale specifically for banks- i.e. industry specific scale - will be able to provide more benefits for the banking industry in Sri Lanka

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