

# ANTECEDENTS AND OUTCOMES OF PERCEIVED SERVICE VALUE: EVIDENCE FROM SLOVENIA

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## Introduction

The world economy is becoming intensely service-oriented. This trend is evidenced by the vast number of marketing research projects that focus on services [8]. Further, the downturn in today's economic markets underscores the importance of perceived value for customers. Also, for firms operating in former socialist economies of Central Europe, some authors [25] pointed to evidence of a high degree of environmental turbulence, as demonstrated by rising unemployment levels, high inflation and fluctuating growth rates. Due to global crisis today, situation in these economies has changed even to the worse. Directly related to economic pressures, customers are increasingly price sensitive and demand better quality products and services.

According to the economic theory and practical experience, the importance of the perceived value of products and services grows during periods of economic recession [51]. In such circumstances, customers are more sensitive to »value-for-money« deals. It is well known that it is unreasonable for marketers to increase the perceived value of their offerings by lowering prices, namely increasing the benefits of offerings for customers can be more effective. From this perspective, the quality and image of offerings are among the most important resources in which marketers can invest.

The majority of perceived value studies are implemented in developed economies, especially the U.S. [54]. In Europe, only few researches have dealt with more complex models, with perceived value of banking services as a central concept [4], [2], [54], [12].

However, thus far, no such studies are yet implemented in former socialist states in Europe. Additionally, although the concepts of reputation, perceived quality and perceived value are among organizational resources that display the characteristics typical for creating competitive sustainable advantage, there remains a lack of studies that incorporate reputation as an antecedent of perceived value. This paper aims to examine perceived quality outcomes and antecedents, including reputation, and to test the model in the new context of a former Central European socialist economy.

Service sectors in the former Central European socialist economies are challenging environments in which to examine the perceived quality construct. In the early days, after Slovenia attained independence in 1991 and began the process of transition, banks in Slovenia were preoccupied with reconstruction of core business processes [18]. In most of the former socialist countries that joined the EU, credits for banking sector rehabilitation go to the foreign banks that dominate these markets. In Slovenia has the ownership structure in the banking sector remained characterized by the prevalent domestic ownership. State-owned banks are facing regulatory changes, demand changes, technological changes and non-bank competitors which are all factors that increase the need for more intensive market-orientation of banks. The results of the study by [18] show the high level of homogeneity of banks in Slovenia concerning their product supply and categorization of their target customer groups. All the banks are universal banks and offer a broad array of products. For most of them, the national market is their target market,

although they usually do not cover the entire market but only its segments. Small domestic banks attract more regional and older customers while foreign banks more autonomous, younger and more educated customers. Banks with a majority foreign ownership demonstrate more intense customer orientation. Increasing the market share was selected as a key strategic goal and a focus differentiation dominates among their business strategies. Solely the biggest bank in the country has pursued an internationalization strategy.

Only recently have banks in Slovenia begun to focus on customer activities, such as satisfaction and loyalty, mainly due to the intensification of foreign competition. However, up to now banks did not pay any attention to the concept of perceived value, which is the focus of the present study.

## 1. Theory Background and Hypotheses Development

**Perceived value** is the essential result of marketing activities and is a central element in relationship marketing [41]. Perceived value has proven to be a difficult concept to define and measure [52], [55], [24]. Broadly, it can be defined as the customer's overall assessment of the utility of a product (or service) [55]. One common element of different authors' definitions concerning customer-perceived value is that perceived value is a highly subjective and personal concept [39] and cannot be objectively defined by an organization. However, what constitutes value appears to be highly personal, idiosyncratic, and may vary widely from one customer to another [24], [55] as well within one customer in different circumstances (e.g. time, place, competitive offerings).

According to the literature review, there are two main research streams of perceived value conceptualization: (a) as a one-dimensional construct, mainly used in older research [32], [55], [23], [6], and; (b) as multi-dimensional construct used in more recent research [24], [45], [49], [44], [43]. While there are several research projects concerning the relationship among perceived quality and customer satisfaction in retail banking, only few projects have dealt with more complex models of the perceived value of banking services. Incorporating perceived value as a mediator

between perceived quality and customer satisfaction can have an important informative and consequently strategic role for the organization. As [31] state, it is important that in situations when customers may be "satisfied" with "what" was delivered (the core) and "how" it was delivered (the relational), the organization also should have the information if customers got their "money's worth".

The quality of service is the fundamental element in the perception of perceived value, as it is one of the most difficult concepts for competitors to imitate [38] and the base for sustained differentiation and competitive advantage [42]. The majority of authors who explore **perceived service quality**, define it as the result of customers' subjective judgments of the level of the service offering and its delivery. Perceived service quality is also recognized as a multidimensional and multiattributable concept [28]. The most frequently used scales in the measurement of perceived service quality are SERVQUAL [39] and SERVPERF [11]. Both scales are also used in numerous research projects concerning banking services [4], [3], [29], [22], [53], [54].

Authors researching relationships in the models of perceived service value ascertain that higher perceived service quality leads to higher perceived service value [46], [47]. These studies can be divided into: (a) prior authors who explore the direct relationship between perceived quality and customer satisfaction, without taking into account the mediating role of perceived value [16], [26], [54], and; (b) present-day authors who explore the relationship between perceived quality and customer satisfaction while including perceived value as a mediating variable [10]. Models in which authors proposed the direct impact of perceived quality on customer satisfaction (without taking into account the relationship between perceived quality and perceived value) produced only a partial picture [31]. For example, in such a case, customers assess their satisfaction with a certain product or service, but there is no data on their assessment of the benefits compared with their efforts and sacrifices. Consequently it is important that in their models researchers include perceived value as the predecessor of customer satisfaction because perceived quality is an important predecessor of perceived value,

which, in turn, reflects on customer satisfaction and loyalty [20].

Therefore, we propose the following hypotheses:

H<sub>1</sub>: The higher the perceived quality of banking services, the higher their perceived value.

H<sub>2</sub>: The higher the perceived quality of banking services, the higher the customer satisfaction with these services.

**Reputation** is customers' collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time [5], [21]. According to [7], reputation captures the set of corporate associations that individuals outside the organization believe that are central, enduring and distinctive aspects of the organization. Reputation is typically an intangible resource that is hard to imitate [15] and that has the potential to increase the value of a product [14]. It has an important influence on the norms and expectations [36] and is among the most reliable indicators of a company's ability to satisfy customer wants [33]. Reputation is also one of the most important indicators of perceived service quality [40]. Literature review reveals that bank reputation plays an important role in determining purchasing behavior where quality of services can not be evaluated prior to purchase [50], [40].

Hence, we propose the following hypotheses:

H<sub>3</sub>: More favorable bank reputation leads to higher perceived banking service quality.

H<sub>4</sub>: More favorable bank reputation indicates higher perceived banking service value.

**Customer satisfaction** is according to [19] who endorses an exit-voice theory, a function of expectations and perceived performance. Some authors [35], [27] argue that it is a cumulative construct that is affected by market expectations and performance perceptions in any given period and is affected by past satisfaction from period to period. However, some authors specify satisfaction as a function of perceived quality and "disconfirmation" – the

extent to which perceived quality fails to match prepurchase expectations [1]. Perceived product value is considered as one of the most influential antecedents of customer satisfaction and loyalty [17], [38], as well as one of the most important indicators of repurchase behaviors [10]. Perceived value, as well as its antecedences and consequences, are also relevant issues in retail banking management. Using these constructs, one can better understand the competitive advantages of retail banks and their ability to attract and retain customers. Although perceived product value recently receives significant research interest, there is still limited research attention focused on perceived service value. Therefore we propose that these relations exist also in retail banking.

Therefore, our final hypothesis is:

H<sub>5</sub>: The higher the perceived value of banking services, the higher the customer satisfaction with these services.

## 2. Methodology

The measurement instrument for the empirical study was developed in three phases. First, some of the relevant items for the questionnaire were taken from the literature. This preliminary phase also included a focus group with graduate students at the University of Maribor. Items from the original SERVPERF scale [11] were used to measure perceived quality, items for the measurement of perceived value were adopted from [10], items for the measurement of bank reputation were adopted from [40] and, finally, [50] and [36] scale were adopted for the measurement of customer satisfaction. In the second phase, in-depth interviews with 8 banking managers and 4 experts from the marketing field were conducted to generate an additional pool of items. Then the questionnaire was examined by 6 specialists (4 academics and 2 in the field of marketing research methods) to determine content validity and help avoid redundancy. In the third phase, to test for internal consistency of the scales used in the final study and to further reduce the number of items, a pilot survey was conducted on a sample of 234 retail banking customers, mostly in the Styria region of Slovenia.

In the final study, the items in the questionnaire were measured on a 5-point Likert scale (from 1 = “strongly disagree” to 5 = “strongly agree”). Eleven items measured perceived quality, four items measured perceived value, four items measured reputation, and four items measured satisfaction, for a total of 23 items.

Data for the main research was collected from 700 retail banking customers in Slovenia in June 2007 by means of a telephone interview. The stratus sample framework was representative regarding retail banking customers' structure by the number of inhabitants in each Slovenian region. The final structure of the sample was also in accordance with the market shares of retail banks in Slovenia at the time of research. Exploratory factor analysis, confirmatory factor analysis and structural equation modeling are used in the data analysis.

### 3. Results

First, the dimensionality of researched constructs by performing exploratory factor analysis is assessed. Results, presented in Table 1, show

that the communalities of all items are relatively high and exceed the value of 0.40. For perceived service quality, a three-factor solution is proposed: core service (SQ1, SQ3 and SQ5), physical evidence (SQ6, SQ7, SQ8 and SQ9) and safety & confidence (SQ24, SQ27, SQ28 and SQ29). Other research constructs are unidimensional. The total variances extracted for all constructs are above 60 %, Cronbach Alphas are above 0.70 and K-M-O measures are appropriate.

Second, confirmatory factor analysis (CFA) for perceived service quality is performed. Two measurement models are compared: (a) a one-factor model and (b) a multi-factor model. Summary statistics for both models are shown in Table 2. Concerning perceived quality of retailing banking services, the multi-factor model is found to outperform the one-factor model on absolute measures ( $\chi^2$ , GFI, and RMSEA), incremental fit measure (CFI), and parsimonious fit measures ( $\chi^2/df$ ). The majority of the fit indices are within the suggested interval.

**Tab. 1: Communalities and Factor Loadings for Perceived Quality**

Items of perceived quality	Communalities	Factors		
		1	2	3
SQ1_This bank offers me a complete range of products.	0.783		0.840	
SQ2_This bank is innovative.	0.828		0.865	
SQ3_This bank matches my specific needs.	0.702		0.811	
SQ4_Employees in this bank are neat in appearance.	0.614	0.607		
SQ5_This bank has up-to-date facilities and equipment.	0.780	0.863		
SQ6_The outdoor facilities of my bank are visually appealing.	0.786	0.868		
SQ7_Informative materials (website, advertisements, brochures, etc.) are visually appealing.	0.479	0.596		
SQ8_The employees in this bank are well educated and professional.	0.512			0.562
SQ9_In this bank my money and savings are safe.	0.559			0.699
SQ10_Using services at outside bank facilities (ATM, telephone banking, e-banking) is safe.	0.547			0.737
SQ11_Recommendations of employees in this bank are trustworthy.	0.650			0.736
<b>Variance extracted in %</b>		42.60	12.66	10.55
<b>Cronbach Alpha</b>		0.795	0.838	0.712
<b>K-M-O measure: 0.839</b>				
<b>Total variance extracted: 65.82 %</b>				

Source: Authors

**Tab. 2: Summary Statistics for One-Factor and Multi-Factor Models**

	One-Factor Model	Multi-Factor Model*
Perceived Quality	$\chi^2/df = 266.61 / 44$	$\chi^2/df = 125.5 / 41$
	RMSEA = 0.099	RMSEA = 0.094
	NFI = 0.92	NFI = 0.97
	CFI = 0.93	CFI = 0.97
	SRMR = 0.184	SRMR = 0.028
	GFI = 0.83	GFI = 0.97

\* Core service, Safety &amp; Confidence and Physical Evidence

Source: Authors

In addition to Cronbach's Alpha, construct reliability (CR) measures are used to assess the reliabilities of the perceived quality subscales. The reliability coefficient of the three subscales range from 0.84 to 0.89, which meets the standard of 0.6, as suggested by [34]. Next, construct validity of the single subscales is assessed by examining convergent and discriminant validity. Evidence of convergent validity in the single constructs is determined by inspection of the variance extracted (AVE) for each factor. CFA results show that AVE reaches the suggested value of 0.50 [13], and t-test results of all correlations between suggested

dimensions are statistically significant. Also, discriminant validity is assessed for the subscales of perceived quality of retail banking. Several CFAs are run for each possible pair of constructs, first allowing for correlation between the two constructs and then fixing the correlation between the constructs at 1. In every case, the chi-square differences between the fixed and free solutions are significant at  $p < 0.05$  or higher. Finally, reliability, convergent validity and discriminant validity for all constructs in the measurement model (perceived quality, reputation, perceived value and satisfaction) are tested, as shown in Table 3.

**Tab. 3: Items, Construct Reliabilities and Average Variance Extracted**

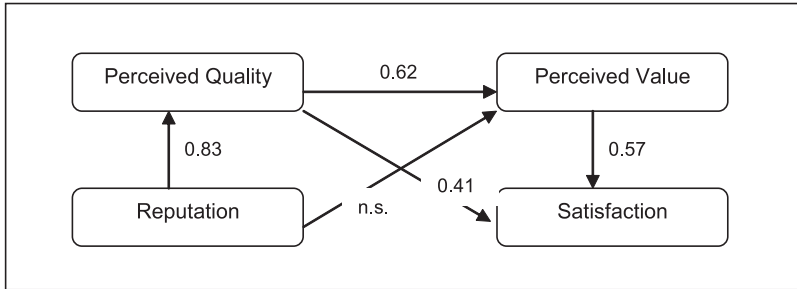
Construct	Dimensions and items	CR	AVE	$\lambda$	t-value
Reputation $\alpha = 0.82$	This bank is respected.	0.88	0.66	0.86	23.27
	This bank is trustworthy.			0.86	26.77
	This bank is successful.			0.83	22.71
	My friends have positive opinions about this bank.			0.69	17.84
Perceived value $\alpha = 0.78$	This bank offers me a lot of benefits.	0.77	0.52	0.66	17.17
	In this bank, the ratio between give and get components is very fair.			0.76	20.29
	In terms of my relationship with this bank, I perceive more positive than negative things.			0.74	16.26
Perceived quality $\alpha = 0.86$	Core service.	0.78	0.53	0.75	19.02
	Physical evidence.			0.70	17.42
	Safety and confidence.			0.79	22.82
Satisfaction $\alpha = 0.87$	The services of this bank meet my expectations.	0.81	0.59	0.85	22.18
	I have good experiences with this bank.			0.82	19.15
	I am satisfied with this bank.			0.62	13.53

Source: Authors

In the final stage of the research, the proposed conceptual model is tested using

structural equation modeling. The overall structural model is shown in Figure 1.

**Fig. 1: Standardized Path Estimates**



All paths significant at  $p < 0.01$

$\chi^2 = 277.65 / df = 60$ ; RMSEA=0.072; NFI = 0.922; NNFI = 0.912; CFI = 0.933; SRMR = 0.05; GFI = 0.920

Source: Authors

With respect to overall model fit, the chi-square statistic indicates some discrepancies between the data and the proposed model ( $\chi^2=277.65/df = 60$ ;  $p < 0.05$ ). A significant chi-square indicates a non-perfect fit of the model to the data. However, other global fit indices

suggest an adequate fit of the model. The RMSEA index of the model is 0.072, which is close to the range for a good fit, but still suggests a reasonable fit. Also, the majority of other fit indices suggest that the global model fit is acceptable.

**Tab. 4: Estimated Effects within the Causal Model**

Relationships	Standardized regression coefficient	t-value	Significance
H1: Perceived quality – Perceived value	$\beta = 0.617$	4.996	$p < 0.01$
H2: Perceived quality – Customer satisfaction	$\beta = 0.410$	8.440	$p < 0.01$
H3: Reputation – Perceived quality	$\gamma = 0.830$	15.338	$p < 0.01$
H4: Reputation – Perceived value	$\gamma = 0.010$	0.059	$p > 0.1$
H5: Perceived value – Customer satisfaction	$\beta = 0.568$	8.928	$p < 0.01$

Source: Authors

Table 4 provides an overview of the estimated effects within the causal model regarding the selected hypotheses. As predicted by H<sub>1</sub>, perceived retail banking service quality is strongly positively related to perceived value ( $\beta=0.62$ ;  $p < 0.01$ ). The relationship between

perceived quality and customer satisfaction with retail banking services is weaker ( $\beta=0.41$ ;  $p < 0.01$ ), but significant, as we proposed in H<sub>2</sub>. Therefore, it can be confirmed that the relationship between perceived quality and customer satisfaction is direct, but also indirect through

perceived value. Further, the effect of bank reputation on perceived service quality is positive, significant and very strong ( $Y=0.83$ ;  $p<0.01$ ). Therefore, H3 is accepted. However, the relationship between bank reputation and perceived service value is non-significant and also very weak ( $Y=0.01$ ). Therefore, H<sub>4</sub> is rejected. As expected, positive and significant findings are also returned for the path from perceived value to customer satisfaction ( $\beta=0.57$ ;  $p<0.01$ ). According to these findings, our final hypothesis, H5, is confirmed. The indirect effect of perceived quality on customer satisfaction through perceived value is also significant, with a regression coefficient of 0.350 ( $t$ -value=5.03). The results indicate that the total effect of perceived quality on customer satisfaction (0.76) is much stronger than the direct relationship (0.41).

## Conclusions

Today, in circumstances of increased global competition and economic recession, it is of prime importance that companies, especially those operating in service industries that are principally offering intangibles to their customers, focus their activities to increasing the perceived value of their offerings by increasing the benefits instead of lowering their prices. The present paper fills existing research gaps concerning the general lack of: (1) research dealing with the perceived value as a crucial component of overall customers' perceptions of services; (2) research projects dealing with antecedents and consequences of services perceived value; and (3) using complex perceived value models incorporating also the reputation as an important resource of company competitive sustainable advantage.

Despite the importance of perceived value for organizational performance, the concept of perceived value has not received enough attention in the literature, especially regarding its relationships with its antecedents and consequences. While relationships of perceived value with perceived quality, customer satisfaction and loyalty are well researched, the majority of more complex perceived value models are implemented in the U.S., few in the EU, but none in the context of retail banking services in former socialist countries in Europe.

The research demonstrates that the concept of perceived value is valid and reliable for service firms that operate in former socialist countries in Europe. It can be applied to understand customers' overall assessments of the utility of bank services. In the empirical study of retail banking services, we linked: (1) reputation directly and indirectly to perceived value and (2) perceived quality directly and indirectly to customer satisfaction. First, considering the relationship between reputation and perceived value, results of our research support only an indirect relationship. Second, the perceived value construct is found to be mediating between perceived quality and customer satisfaction, as is often the case in other industries [9], [10], [30].

The results also show that the total effect of perceived quality on customer satisfaction (0.76) is much stronger than the direct relationship (0.41), so it is important for managers to consider the total effects because, otherwise, the relationship can be seen as much weaker. It is also important for managers in retail banks to consider perceived quality as a multi-dimensional construct, where safety, physical evidence and confidence and employees are important, because focusing only on core service quality is too narrow.

Further, results of our research show that reputation has direct, positive and very strong impact on perceived quality. Banks are perceived as respected, trustworthy and successful, consumers have in general positive opinion about their banks. As reputation consists of mainly emotional perceptions that are related to past experiences, and is an important antecedent of perceived quality, which also includes a set of subjective components we can conclude that also in former socialist countries in Europe customers do not perceive only a rational components of offerings but are also more and more sensitive to emotional aspects of services.

Reputation, perceived quality, perceived value and customer satisfaction are interlinked, intangible, complex and relatively vague, but strategically important concepts in the retail banking industry of former socialist countries in Europe. Therefore, managers' decisions regarding their activities with customers should be holistic and systematic, taking into account both direct and indirect effects among the researched concepts.



In assessing the implications of this study, its limitations must be acknowledged. Because the results are directly relevant only to customers of retail banking services, generalizations of the findings beyond the immediate population observed should be made with caution. Also, the model of perceived value could be further expanded to account for more indicators of perceived value and customer satisfaction (e.g. culture, market orientation), as well as more consequences of customer satisfaction, e.g., loyalty in addition to those evaluated as part of this study. Specifically, the concept of consumers' trust in banks in the context of former socialist economies needs to be examined since it is expected that consumers in these countries have less experience with banks in comparison to consumers from more developed economies. Together with the managerial implications of findings, public policy implications for the banking sector could be established.

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Doručeno redakci: 25. 11. 2009

Recenzováno: 18. 3. 2010, 21. 4. 2010

Schváleno k publikováni: 9. 1. 2012

## Abstract

**ANTECEDENTS AND OUTCOMES OF PERCEIVED SERVICE VALUE:  
EVIDENCE FROM SLOVENIA****Aleksandra Pisnik Korda, Boris Snoj, Vesna Žabkar**

*Perceived value is considered one of the most influential measures of customer satisfaction and is of growing interest to scholars and marketing managers. This paper aims to test a model of perceived value antecedents and consequences in the retail banking industry in the former socialist economy in central Europe. This environment should be of interest to researchers since the majority of perceived value studies have been implemented in developed economies, especially the U.S and even in these countries with an exception of U.S.A. only few researches have dealt with more complex models, with perceived value of banking services as a central concept. However, thus far, no such studies are yet implemented in former socialist economies of Europe. The study also extends extant research by incorporating reputation as an antecedent to perceived value and as an important resource of company competitive sustainable advantage. Content validity of the instrument was assessed by conducting interviews with experts in the field, and face validity was assessed by means of pre-tests with members of the target population (focus groups). In addition, viewpoints related to construct validity, convergent validity, discriminant validity and nomological validity were assessed with exploratory factor analysis (EFA), confirmatory factor analysis (CFA) and structural equation modeling (SEM). Data for empirical research is collected from 700 retail banking customers in Slovenia. A structural model with four reflective constructs is evaluated to test the hypothesized relationships. Results indicate the importance of perceived value as a mediating variable in the quality – satisfaction relationship. However, our results show that reputation influences perceived value, only indirectly, via perceived service quality.*

**Key Words:** *perceived quality, perceived value, reputation, satisfaction, retail banking services.*

**JEL Classification:** *M30, M31.*