

Bank service quality in private sector: Evidence from Iran

Niloufar Asgarian*

Department of Management and Accounting, Allameh Tabataba'ee University, Tehran, Iran

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ABSTRACT

Service quality plays an important role in service industries such as banks, insurance firms, etc. The purpose of this paper is to investigate level of service quality in private banking industry in Iran. The proposed model of this paper uses SERVQUAL tool for measuring service quality and population of this study includes customers of three private banks in Tehran. Results show that except efficiency, other variables of SERVQUAL obtained suitable level mean in this study. As a result, with the development of electronic commerce, internet banking has become an alternative for developing, operating and offering bank services.

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1. Introduction

Over the years, one of the most important changes in global economy has been the significant growth in service industry especially in developing countries. Like other service industries, providing excellent service quality in the banking industry increases customer satisfaction and helps banks increase their productivity. Excellent service quality reduces customer defection, improves customer loyalty, brings about chances for cross-selling, expands word-of-mouth recommendation, and gets better corporate image. Outstanding service quality helps development and keeps long-term linkages with customers, which is essential in the competitive business environment of state-of-the-art banking (Camarero, 2007).

There has been a great deal of research on service quality in banking industry. SERVQUAL is one of the most important tools for measuring service quality and identifying important features for customers in service industries such as banking sector (Parasuraman et al., 1988). Evaluating service quality in service industry is the subject of various studies specially in banking sector (Arasli et al., 2005; Chi Cui et al., 2003; Lam, 2002; Mels et al., 1997; Zhou et al., 2002). During the past few

*Corresponding author. Tel: +989122975742
E-mail addresses: n.asgarian@yahoo.com (N. Asgarian)

years, private banking sector has become an important Iranian industry since this part of banking has been unknown for research society. The proposed study of this paper investigates service quality in private section of banking industry.

2. Literature review

2.1 *Service quality*

Service quality is considered as a modern technique for measuring quality in various enterprises and organizations and serves the development of a truly customer-focused management and culture. A popular definition of service quality is that the service ought to be affiliated with the customers' expectations and satisfy their requirements. This definition has a customer-sensitive mood, but does not mean that the service provider always complies with the customer and his desires. Therefore, it is the customer who decides what is good or bad and quality does not mean that the customer is always right or that the customer can always fully mention or verbalize his/her demands. In order to determine non-verbalized customer requirements, a sense of insight, a functional dialog with the customer and an understanding of his/her situation are required (Edvardsson, 1998).

According to Parasuraman et al. (1985, 1988), service quality is the distinction between customers' expectation and their perceived performance from service. Therefore, they developed the SERVQUAL tool for service quality assessment in terms of five different dimensions. Their model incorporates the academic and the practical circles. Therefore, various authors have questioned about the conceptual framework and measurement perspectives of this model. For example, Cronin and Taylor (1992) emphasized that using service quality performance (SERVPERF, i.e. the perceived service in SERVQUAL) to measure service quality may generate better results in terms of reliability, validity, and predictive power than using SERVQUAL. Zeithaml et al. (1996) and McAlexander et al. (1994) pointed out that SERVPERF is more accurate than SERVQUAL for measuring service quality, and SERVQUAL can provide diagnostic information. In other studies of the information industry, similar findings have been proposed (Landrum & Prybutok, 2004; Pitt, Kappelman, & Prybutok, 1997; Watson, & Kavan, 1997), and Zeithaml et al. (2002) proposed that it was not essential to implement customers' expectation for measuring the service quality of a website.

In website service quality, there are different measurement features proposed based on website properties. Kuo (2003) put virtual community service quality such as incorporating advertising mail management, customer service management, online quality and information safety, design of webpage etc. Yang et al. (2005) implemented usability, content usefulness, information adequacy, accessibility, and interaction to evaluate users' perceived quality of information in websites. In terms of transaction process perspective, Bauer et al. (2006) proposed eTransQual, five quality aspects, including functionality/design, reliability, process, enjoyment, and responsiveness, for measuring the quality of online shopping services. Chae et al. (2002), in an assignment, used quality of connection, content and interaction quality, and contextual quality for measuring the information quality of mobile services. Kim et al. (2004) investigated service quality of mobile communication services in South Korea based on value-added services and call quality and customer support. According to the mentioned-above studies of measuring website service quality, they classified service quality factors into five SERVQUAL dimensions, including tangible, responsiveness, reliability, assurance, and empathy.

2.2. *SERVQUAL*

The term of service quality has become a controversial issue in terms of definition as well as measurement since there is not a precise definition for this phrase. During the past few years, SERVQUAL has become the most commonly used technique for evaluating service quality. Perceived service quality is associated with consumer judgment about a service provider's overall excellence

(Parasuraman et al., 1988). This judgment is the result of the distinction between what a customer believes a service provider should offer in terms of expectations and his/her perception of the actual performance of the service (Parasuraman et al., 1988). Numerous techniques exist for measuring service quality, including the famous SERVQUAL tool (Parasuraman et al., 1988) based on the assumption that perceived service quality derives from the consumer's comparison of expected service and actual service performance (Gronroos, 1984; Parasuraman et al., 1988). SERVQUAL assesses following dimensions:

- (1) Tangible elements, which includes equipment, physical facilities, and personnel;
- (2) Reliability including ability to perform the promised service accurately and dependably;
- (3) Responsiveness, which are willingness to help customers and provide prompt service;
- (4) Assurance including courteous and knowledgeable employees who can inspire confidence and trust;
- (5) Empathy.

There have been a few empirical studies dealt with the application of SERVQUAL capabilities in banking industry such as Kwan and Lee (1994), Lanced and Galloway (1994), Jun and Cai (2001), and Lassar et al. (2000). Jun et al. (1999) studied the service quality for delivering loan products. The results put emphasize between bankers and customers in the perceived momentous of service quality features. Blanced and Galloway (1994) studied the SERVQUAL method in examining quality in banking. To provide useful understandings into how service might be enhanced, they attempted to develop an alternative framework and reported that their model was capable of handling different applications, and it can give enough actionable diagnostic information. Kristensen et al. (1999) investigated the continuous improvement of service operations in which the actual service experience was evaluated through a customer survey. They presented a study of operations in Indian banks.

Hypotheses

- H₁: Tangible elements have a suitable level in banks. H₄: Assurance has a suitable level in banks.
 H₂: Reliability has a suitable level in banks. H₅: Empathy has a suitable level in banks.
 H₃: Responsibility has a suitable level in banks.

3. Methodology

The SERVQUAL questionnaire covers items each, assessing customer expectations and perceptions of the service received. Population of this study was selected from customers of three private banks in Tehran, namely Saman, Parsian, and Shahr. For this, author selected five branches of each bank in region one of city of Tehran. Random sampling is used for data gathering within population. Questionnaires were distributed by author and demographic gathered data is shown in next section.

3.1 Reliability and validity

A full list of the items has been shown in the "Results" section. Respondents were asked on each of the 22 items in terms of a seven-point Likert-type scale ranging from "strongly disagree" (1) to "strongly agree" (7). We have evaluated the reliability and validity of the SERVQUAL scale based on mean of confirmatory factor analysis (CFA) using maximum likelihood estimation and robust method. Table 1 shows Fit indices. The reliability of the five SERVQUAL dimensions was evaluated based on composite reliability index (ρ). The values were 0.829, 0.871, 0.844, 0.851, and 0.844 for tangibles, reliability, responsiveness, assurance, and empathy, respectively.

Table 1

Fit statistics for measures

Indices	Value
Satorra-Bentler	335.0653 ($p < 0.001$)
Chi-square	1.684 (< 3 , acceptable)
Non-normed fit index (NNFI)	0.930 (> 9 , acceptable)
Comparative fit index (CFI)	0.927 (> 9 , acceptable)
The root mean square error of approximation (RMSEA)	0.057 (confidence interval from 0.050 to 0.063)

Convergent validity was assessed considering the loadings of 22 items and the average variance extracted (AVE) criteria. The results of the CFA reveal that all items are significant. All loadings were statistically significant at the 0.05 level ($t > 1.96$). The AVE for each of the factors are: 0.618 for “tangibles”, 0.631 for “reliability”, 0.639 for “responsiveness”, 0.678 for “assurance”, and 0.566 for “empathy”. These results support the convergent validity of the SERVQUAL scale scores. The discriminant validity was supported, as the AVE for each pair of variables was greater than the squared correlation for the same pair. For instance, the squared correlation between tangibles and reliability was 0.355, a lower value than the AVE associated with tangibles (0.618) and reliability (0.631). Predictive validity of the scale scores was assessed by undertaking a correlation analysis of each of the five SERVQUAL features. All correlations were significant; the results confirm the predictive validity of the scale and Table 2 summarizes the results.

Table 2

Construct measurement summary

Constructs and items		Standardized loadings	Robust t-values
	1	0.849	-
Tangible elements	2	0.830	25.876
	3	0.654	13.323
	4	0.728	15.049
	5	0.816	-
	6	0.844	19.430
Reliability	7	0.733	20.405
	8	0.824	23.703
	9	0.570	19.433
	10	0.714	-
Responsibility	11	0.811	16.311
	12	0.811	16.764
	13	0.715	13.014
	14	0.875	-
Assurance	15	0.864	31.123
	16	0.821	17.121
	17	0.711	11.921
	18	0.879	-
	19	0.143	3.756
Empathy	20	0.923	27.632
	21	0.744	16.787
	22	0.818	21.234

4. Results

4.1. Demographic data

In our survey, most participants were male (73%) ranging from 26 to 50 years of age with 71.5% being 26–35 years old and 28.5% being 35–50 years old. The participants affairs were associated with commerce (49%), personal (10%), loan (23%), transaction (10%), and daily works (8%). This indicates that nearly half of bank customers were engaged in trade and commerce affairs. Note that according to Iranian culture, men dealt with banking activities more than women do. Of course, in mega cities, because of huge involvements of men in life problems, women can help their family in such banking affairs too. To analyze research's findings, one sample test is implemented. The result of one-sample t test in Table 3 indicates that sample mean of reliability ($t = 32.40$), Responsibility ($t =$

31.11), assurance ($t= 25.09$), and empathy ($t= 30.03$) are well above expected value (3) but sample mean of tangible elements ($t= 22.91$) is significantly less than expected value (3).

Table 3
Questionnaire items

Indicators	mean	Sig.
1: X bank has modern-looking equipment	2.52	0.000
2: X bank's physical facilities are visually appealing	2.54	0.000
3: X bank's employees are neat-appearing	3.13	0.000
4: Materials associated with the service (such as pamphlets or statements) are visually appealing at X bank	3.54	0.000
5: When X bank promises to do something by a certain time, it does so	3.28	0.000
6: When you have a problem, X bank shows a sincere interest in solving it	3.99	0.000
7: X bank performs the service right the first time	2.80	0.000
8: X bank provides its services at the time it promises to do so	3.66	0.000
9: X bank insists on error-free records	3.69	0.000
10: Employees of X bank tell you exactly when services will be performed	3.60	0.000
11: Employees of X bank give you prompt service	4.06	0.000
12: Employees of X bank are always willing to help you	3.76	0.000
13: Employees of X bank are never too busy to respond to your requests	2.50	0.000
14: The behavior of employees of X bank instills confidence in customers	2.53	0.000
15: You feel safe in your transactions with X bank	1.93	0.000
16: Employees of X bank are consistently courteous with you	2.49	0.000
17: Employees of X bank have the knowledge to answer your questions	1.94	0.000
18: X bank gives you individual attention	1.90	0.000
19: X bank has operating hours convenient to all its customers	3.15	0.000
20: X bank has employees who give you personal attention	2.68	0.000
21: X bank has your best interests at heart	3.62	0.000
22: Employees of X bank understand your specific needs	2.10	0.000

Table 4
One-sample t-test (mean > 3 accepted)

Hypothesis	Variation	Sample size	Mean	Standard deviation	Standard error of mean	t	df	Significance level
H1	Tangible elements	103	2.16	0.42	0.02	22.91	102	0.00
H2	Reliability	103	4.02	0.29	0.02	32.40	102	0.00
H3	Responsibility	103	3.88	0.42	0.02	31.11	102	0.00
H4	Assurance	103	3.78	0.33	0.02	25.09	102	0.00
H5	Empathy	103	3.99	0.47	0.02	30.03	102	0.00

5. Conclusion

The primary objective of this study was to examine service quality level in private banking industry in Iran. The study finds that, in general, respondents perceived that bank service was high quality. Nevertheless, respondents reported significantly lower levels of tangible elements of service quality. Amin and Isa (2008) reported that "reliability" and "empathy" were the most important dimensions of service quality in Malaysian Islamic banks. The results conjointly confirmed the findings of Karapte et al. (2005), UN agency notice that "empathy" and "reliability" were the second- and third-most vital determinants (after "interaction quality") of overall bank service quality in Northern Cyprus. Taken along, these findings emphasize the continued importance of the worker in providing banking services. Despite technological automation and net banking, customers apparently still price person-to-person contact (Molina et al., 2007). Despite the dynamic banking surroundings, customers still assess bank service quality primarily in terms of the private support they receive from workers, instead of technical innovations (Arasli et al., 2005). According to Molina et al. (2007), bank customers expect benefits if they are to keep a long-term link with a particular bank. These benefits include first-rate service, personal recognition and friendly interactions, and confidence and trust.

The service sector now accounts for almost two thirds of the GDP in industrial countries and even in several developing countries. The banking industry has become extremely competitive due to globalization. Hence, bank service management have to comprehend how customers in dissimilar

nations rate service quality and what essential features help to enhance service quality. Bank management should stress the momentous facets in their communication strategies. Banks should maintain their promises to customers, indicate an honest interest in diminishing customers problems, and inform users of the time needed to perform transactions, perform the service right the first time, and insist on error-free records. Since “responsiveness” refers to the willingness to contribute clients and provide alert service, functional employees should be trained to give quick, excellent service, show care and interest in helping customers, and response appropriately to their requests. Employees should not neglect user questions because they are too busy. With the development of electronic commerce, internet banking has become an alternative for developing, operating and offering bank services. The internet develops market coverage and offers banks the opportunity to enhance their market share, reduce operational costs, and develop customer relationships. Hence, it constitutes solemn challenges because internet users may have varying needs, expectations, and demands from in-person customers.

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