

# Analysis of Service Quality Gaps in Banking Industry to Enhance Overall Performance: a Case Study of ABC Bank

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## Abstract

In present-day vibrant world of competition, it is harder for service companies to establish standard service quality corresponding to the needs and expectations of their consumers than it is the case with production companies, all due to specific character of services. Thus, this research attempts to understand the importance of service quality and its implications on performance in the Banking Industry in Sri Lanka. The research, a case study approach which attempts to understand the service quality gaps in ABC bank and to relate to its performance. Hence, two major tools are utilized, SERVQUAL and Balanced Scorecard technique (BSC). The BSC essentially covers the aspects not covered through the SERVQUAL thereby providing a holistic view to the service quality and its implications on performance.

The outcomes of the research indicate that there are significant gaps in quality in terms of tangibly, reliability, responsiveness, assurance and empathy in ABC bank. Furthermore, it specifies these factors have strong links to its performance. Hence, these factors should be addressed by organizations in the banking sector in Sri Lanka. The research will be beneficial for the management of the ABC bank in providing practical solutions for their issues in service quality, while achieving greater competitiveness in the vibrant business environment.

**Keywords:** *Service Quality, Performance, Banking industry, SRVQUAL, Balanced Scorecard.*

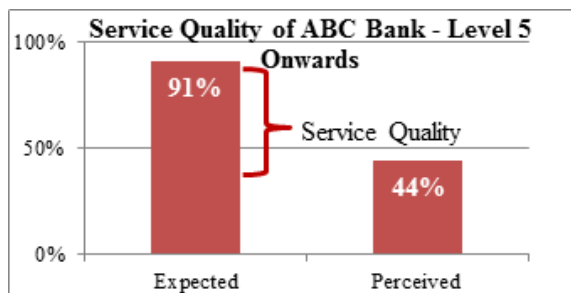
## 1. Introduction

The banking and finance industry in Sri Lanka plays an important contribution to the growth of the overall economy of the country. Annual GDP growth rates exceeding 8% for a continuous period of around 10 years will ensure very low unemployment rates (Samaanayake, 2016). Accordingly, to achieve such a task, the policy makers of the sector are required to embark on meaningful and productive strategies in streamlining the sector for servicing all sectors of the economy. Despite these high growth expectations the banking industry has experienced significantly less growth during the year 2016 with low contribution to the GDP growth, tax attacks, low credit growths and rising non-performing loans (Srirangan, 2016). The commercial banking sector of Sri Lanka has 13 local banks and 12 foreign banks all which account for LKR 6,900 billion (Samaranayake, 2016). The market share of the overall commercial banking sector is dominated by private sector domestic commercial banks with 46% of the market share and 44% held by two giant state banks (Central Bank of Sri Lanka, 2016). The sector has experienced some slow growth during the year 2016 due to several reasons such as slow GDP growth and tax attack, slow credit growth and rise in NPLs (Samaranayake, 2016). Despite this slow growth the asset base of the sector has made continuous increase for the central bank as well as the commercial banks, finance companies and unit trusts.

ABC Bank received several customer complaints regarding the quality of the services. This can have a negative impact of the ability of the bank to not only to attract new customers but also to retain existing

customers. Therefore, it was decided to make a pilot study to reveal whether there are performance gaps in the bank. Pilot study was conducted by distributing solely the SERVQUAL Questionnaire to 20 randomly selected customers and the results are depicted in figure 1.

**Figure 1: Results of Pilot Study – Service Quality of ABC Bank**



Source: Survey Results

As SERVQUAL Questionnaire consists with 22 questions focusing on the quality through Tangibility, Reliability, Responsiveness, Assurance and Empathy, total number of data points regarding the quality has counted as 440 (20 persons x 22 question items). Among 440 data points, only 195 data points (i.e. 44%) accept that presently there is “5 to 7 level” (i.e. higher range) service quality in the ABC Bank out of 7 quality levels. Among 440 data points, 402 data points verify (i.e. 91%) that customers are expecting “5 to 7 levels” service quality from the ABC Bank. Accordingly, a gap of expected service quality and existing service quality standards represent 47%.

## 2. Literature Review:

“Service quality is a recent and more dynamic decisive issue in the marketing thought” (Ragavan & Mageh 2013, page 26). It is generally referred as the extent, to which the service is matched with the expectations of the customers (Saghier & Nathan, 2013). According to Parasuraman et al., (as cited in Lau, Cheung, Lam & Chu 2013, page 266), service quality is referred as the difference between the actual customer experiences of a service and the perceived degree of service. The key concern of Wisniewski (2001) is, it is difficult in defining service quality in a unique manner.

Service quality has to be measured time to time and improvements have to be done accordingly to ensure

continuous quality of the services. SERVQUAL is a multi-dimensional concept and the prominent technique which was introduced by Parasuraman, Zeithmal and Berry (1985). It measures five aspects of service quality through a SERVQUAL questionnaire given to the customers, and those aspects include tangibles, reliability, responsiveness, assurance and empathy.

Overall bank performances imply the total value addition of the bank to all its stakeholders (ECB, 2010). Historical analyses of banks performances suggests ROE (Return on Equity) as the best of measuring overall performances, which has now become only one element of the overall performance (ECB, 2010). Instead, it is focused on assessing bank’s performance by evaluating the ability to create sustainable profits (ECB, 2010). Kimball (as cited in Ratnatunga & Montali, 2008) suggests adding non-financial tools as well, when measuring the performances of the banks. One such best methods for assessing performances in a hybrid system is the balanced scorecard (Kimball as cited in Ratnatunga & Montali, 2008), which was introduced by Kaplan. Balanced scorecard assesses the performances of a bank in four main ways including,

- financial performances
- customer related performances
- internal business processes
- learning and growth

## 3.Objectives

Accordingly, the aim of this research is to analyse service quality gaps of ABC Bank for enhancing overall performances of the bank.

In align with the main research aim, several specific objectives have been finalized as;

- To identify the concept of service quality and performances and their importance for banks
- To identify key service quality gaps seen in ABC Bank through the analysis.
- To study the impact of service quality gaps on the performances of ABC Bank
- To understand techniques to improve the service quality in a way to enhance overall performance of ABC Bank.

## 4. Hypothesis:

- Null Hypothesis – H0 – There is no positive impact of service quality on overall performances of ABC Bank

- Alternative Hypothesis – H1 – There is a positive impact of service quality on overall performances of ABC Bank.

## 5. Research Methodology:

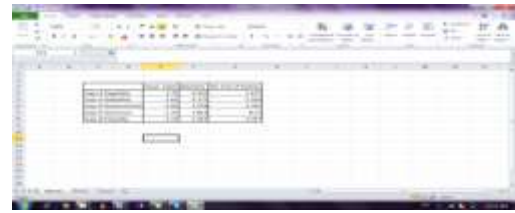
This research will analyze the relationship between service quality and overall performances of banks. Thus, it can be identified as a hypothetical testing research investigation, which will be conducted for ABC Commercial Bank, Sri Lanka. SERVQUAL model and the Balanced Scorecard are the two main models used in this research. As SERVQUAL model is obsolete by now, Balanced Scorecard Concept (Kaplan & Norton, 1992), aligned with SERVQUAL model, has been used when measuring the service quality. As SERVQUAL model mainly concern about the customer expectations and perceptions, while using balanced scorecard model researcher will give an honest opinion on overall performance of the bank as an internal employee of the organization. A SERVQUAL questionnaire was developed for the collection of data which was shared among a sample of 60 customers of the ABC bank out of which 55 responded.

## Analysis & Interpretation:

Independent variables are represented through the gaps, which are calculated by deducting perceptions from expectations (P-E). Therefore, the gap value is most likely to be negative as the expectations are usually higher than the perceptions. An average gap value can be calculated by:  
 $(-7) + (-6) + (-5) + (-4) + (-3) + (-2) + (-1) / 7 = (-4)$   
 Therefore, the average value can be established as -4 where any mean value higher than this can be considered a favourable condition (shows a lower gap). Accordingly, the following criteria are established:

- when the gap value is 0, the expected level and the perceived level of the quality is matched, hence there is no gap for that service quality
- When the gap value is (+) positive, the perceived quality level seems to be higher than the expected quality level, which is an excellent scenario
- When the gap value is (-) negative, the perceived quality level is less than the expected quality level, where improvements are required

**Table 1: Frequency Distribution Analysis**



The frequency distribution analysis of Table indicates that the gaps in terms of customer expectations and perceptions are not very high. Customer expectations are mostly met in terms of responsiveness which has the lowest gap (-1.85) out of considered aspects. Reliability is the second highest aspect (-1.62) that has met the customer expectations while tangibility and assurance follows. The aspect that needs most improvement in terms of meeting customer expectations is empathy that has the highest gap (-1.15) in the bank. Service quality should be improved to a larger extent in terms of empathy in order to meet the expectations of the customers.

**Table 2: Correlation between Dependent and Independent Variables**

	Tangibility	Performance
Pearson Correlation	1	.413
Sig. (2-tailed)		.257
Pearson Correlation	.413	1
Sig. (2-tailed)	.257	
N	55	55
	Reliability	Performance
Pearson Correlation	1	.676
Sig. (2-tailed)		.690
Pearson Correlation	.676	1
Sig. (2-tailed)	.690	
N	55	55
	Responsiveness	Performance
Pearson Correlation	1	.697
Sig. (2-tailed)		.111

Pearson Correlation Sig. (2-tailed)	.697	1
N	55	55
Pearson Correlation Sig. (2-tailed)	.111	
	Assurance	Performance
Pearson Correlation Sig. (2-tailed)	1	.661
Pearson Correlation Sig. (2-tailed)	.661	1
N	55	55
	Empathy	Performance
Pearson Correlation Sig. (2-tailed)	1	.799
Pearson Correlation Sig. (2-tailed)	.799	1
N	55	55

Regression analysis of table 3 provides an overall understanding of the relationship between the variables complementing the correlation analysis. The R values indicated the correlation coefficients that were discussed in the previous section of the chapter. The B value (Value after the adjusted R square) on the other hand represents the depth of the relationship between variables. For example, when tangibility aspects are improved the performance will increase by 31.3%. This can be applied to all the five variables, where it is evident that empathy has the highest impact on performance. Tangibility has the lowest impact while reliability, responsiveness as well as assurance all have moderate levels of impact on the dependent variable.



Figure 2: Cobweb Analysis

The correlation analysis table 2 indicates that all five aspects of tangibility, reliability, responsiveness, assurance and empathy have a significant impact on performance. The highest impact on performance is by empathy while tangibility has the lowest impact. The variables of reliability, responsiveness and assurance all have almost equal impact on performance. The bank under consideration should therefore pay more attention to improving aspects in service related to empathy as the highest gap is recorded in this aspect which has the most significant impact on service quality and performance.

Table 3: Regression Table

Variable	R	Adjusted R Square	F-Sig	B
Tangibility	0.413	0.011	0	0.313
Reliability	0.676	0.03	0	0.692
Responsiveness	0.697	0.056	0	0.665
Assurance	0.661	0.036	0	0.521
Empathy	0.799	0.026	0	0.765

The Balanced Scorecard analysis of the four perspectives indicates higher scores in all four dimensions. The figure 2 indicates the cobweb analysis of the Balanced Scorecard which is represented in percentages. The highest score is for long term direction and strategy which is a 90% score and overall 42 points. This shows that the vision, mission and long terms goals of the organization is clearly set and communicated well among the employees. Furthermore, the organization is future oriented and overall strategic management is of high standard.

Customer perspective has earned 80% which indicates good customer service provided by ABC Company. The organization is involved in introducing new services, takes consumer complaints into consideration, utilizes modern technology and is involved in a number of marketing activities for creating brand awareness. Therefore, the customer perspective has earned higher points in this regard. The financial perspective has scored 60%, indicating that its financial objectives are satisfactory but not as satisfactory. as customer perspective. Main Reasons behind this are due to intense competition in the market, growth in non - performing customer current accounts, loans etc.

Internal processes have scored 68% which is due to lower scores in aspects such as employee engagement and systems for improving key processes. This shows that there is room for improvement in terms of internal processes where the employees should be involved in the decision making and to introduce newer systems for improving productivity. The perspective of learning and growth has earned the lowest score, depicting that the ABC company should focus on improving innovation, R and D activities and continuous improvement of the services and practices. Summary of BSC analysis is given in the table 4.

**Table 4: Balanced Scorecard Analysis**

Perspective	Points Scored	Percentage	Total Points that can be Scored
Long Term Direction & Strategy	42	84%	50
Customer Perspective	16	80%	20
Financial Perspective	12	60%	20
Internal Processes	24	68.50%	35
Learning and Growth	17	68%	25

The organization has clearly defined its long-term vision and strategy and has a clear direction. These long-term goals are communicated to the employees well and in advance so that the consistency is high within the entire organization. Customer perspective too has scored high values in this company which indicates that customer satisfaction is high and that the mission is being translated into achieving customer expectations. Financial perspective is the area that needs the highest amount of improvement as it has scored the lowest. The aspects of learning and growth as well as internal processes too have room for improvement.

## 6. Conclusion

The research is aimed at identifying service quality gaps in the banking industry and its impact on enhancing the overall performance. A case study approach is used to address the service quality in view of ABC bank. SERVQUAL as well as Balanced Scorecard techniques are used for the data collection and identification of variables. A SERVQUAL model is used for the purposes of data collection which is distributed among a sample of 60 customers of the organization. The five dimensions of tangibility, reliability, responsiveness, assurance and empathy are the independent variables while the four attributes of Balanced Scorecard financial perspective, customer perspective, internal business

processes perspective and learning and growth perspective are considered as the sub variables of the main dependent variable of performance.

## 7. Limitations

A number of limitations were discovered through the research. But the credibility of the research would have increased if not for the limitations. The major drawback of the research is in relation to the sample of respondents as it had to be limited to 60 customers of the bank. The ideal would be a representation of customers of the bank in all branches; however due to time and resource constraints it was limited to 55 customers of the Kollupitiya branch. A better representation would have been to represent customers of all banks in order to relate the findings to the banking industry. Therefore, a major limitation is the sample size in which the data is collected from.

## 8. Recommendations for Future Research

The future researches too can take into account this model of identifying gaps in order to enhance the overall performance of the organizations. Combining findings of both the SERVQUAL survey with the Balanced Scorecard broadens the knowledge and provides an understanding of both the customer as well as the employee perspectives. Future researches could add in other aspects such as technology, cultural differences into the model in order to broaden the scope of the study. When selecting the sample potential customers in the younger generation such as university students can be selected in order to address the potential customer groups.

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