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Service Quality Measurement in Croatian Banking Sector: Application of SERVQUAL Model

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Abstract. Service quality has become an important factor for success and recognition in the banking sector. The financial services belong to a group of services that almost all people of developed countries encounter during their lives. In order to survive in this intensively competitive sector, banks need to identify factors that ensure long-term success. Although a great number of research studies related to service quality in banking sector have been conducted during the past two decades, the literature review indicates that similar studies in Southern Europe are relatively limited. The purpose of this study is to investigate customers' expectations and perceptions of banking service quality. The study also aims to identify the number of dimensions for expectation and perception scales of a modified SERVQUAL model and to test the reliability of the applied model.

The primary data were collected through a self-administered questionnaire. The study used a modified SERVQUAL scale with 22 pairs of item for measuring expectations and perceptions of banking service quality. Respondents were asked to indicate their degree of agreement with each of the items on 7-point Likert-type scale. Basic information relating to the respondents' age, gender, economic status, education, frequency of using eBanking and frequency of bank visiting were also collected to gain insight into the profile of the customers. Data for this study were collected using a convenience sample over a 4-month period in 2012. In total, 1000 questionnaires were distributed and 511 returned, of which 56 were incomplete and omitted from the analysis. This makes a response rate of 45.50% (N=455). In order to achieve the study goals, descriptive statistics, t-test, exploratory factor analysis, and reliability analysis were performed.

The study results indicate high expectations of customers regarding banking service quality. There is an overall negative discrepancy between bank customers' expectations and perceptions, indicating that customers included in the sample expressed dissatisfaction with banking service quality in Croatia. The greatest gap occurs in reliability and responsiveness, calling for improvement measures. Furthermore, the study identifies five factors that best explain customers' expectations and two factors that best explain customers' perceptions regarding banking service quality.

This study makes a contribution to the knowledge about banking service quality and provides useful information that could help bank management in providing high service quality and increasing the customers' level of satisfaction.

Keywords: SERVQUAL, service quality, factor analysis, reliability analysis, banking sector

1 Introduction

Service quality has become an important factor for success and recognition in the banking sector. In order to survive in this intensively competitive sector, banks need to identify factors that ensure long-term success.

The banking sector in Croatia is currently facing considerable changes. The consequences of financial crisis are still present, together with increasing demand for better service quality, intensive pressure of competition and changes in government regulations. These are some of the factors that are forcing banks to focus on the customers' needs. Today, "the bank goes to the customer rather than waiting for the customer to come to the bank" (Firdaus et al., 2010). Today, in Croatia there are 27 banks which offer more or less similar services. This study aims to assess the level of customers' expectations and perceptions, to identify the dimensions of expected and perceived service quality in the Croatian banking sector and to test the reliability of the proposed expectations and perceptions scale. Although the quality of service is not the only factor that influences the customers' decision to choose, or to continue using, the services of a particular bank, it is considered by most marketing researchers to be a significant factor and one that could determine customers' overall satisfaction and loyalty.

This study is divided into several sections. First, a brief review of the main concepts of research is presented. Next, the research methodology used in this study is described, followed by the presentation and discussion of results. The last section, the conclusion, provides main research findings, limitations and suggestions for future researches.

1.1 Concept of service quality

The concept of service quality has received a great deal of attention from both academicians and practitioners throughout the past three decades. Service quality has been defined variously and there is still no consensus about its definition. Gronroos (1984) defined service quality as the outcome of the comparison that consumers make between their expectations and perceptions. Similarly, Parasuraman, Zeithaml and Berry (1985) defined service quality as the difference between customer expectations and perception of actual service.

In judging service quality, customer expectation serves as a foundation for evaluating service quality. It is assumed that quality is high when performance exceeds expectation and quality is low when performance does not meet expectation. The most used model for measuring service quality is the SERVQUAL model. It was developed by Parasuraman et al. in 1985 and was later refined. Initially the model had 10 dimensions of service quality, which were later reduced to five dimensions that consumers use to evaluate service quality:

- Reliability - ability to provide accurate and dependable service
- Assurance - ability of employees to inspire trust and confidence
- Tangibles- the physical surrounding and appearance of employees
- Empathy- individualized attention provided to customers
- Responsiveness- willingness to help customers by providing prompt service.

Although the SERVQUAL model is still widely used, it has been much criticized by academicians. As mentioned earlier, in assessing service quality in the SERVQUAL model, customers compare expectations with real performance. Cronin and Taylor (1992) pointed out that measuring expectation is not necessary and that respondents are able to evaluate service quality by perceptions of service delivered only. Therefore they developed the SERVPERF model. Regardless of the service quality measurement used, it is evident that service quality influences customers' perceived value, satisfaction, re-visit and loyalty.

1.2 Bank service quality measurement

There are a number of researchers who have adopted SERVQUAL for measuring service quality in the banking sector (Bahia and Nantel, 2000; Bhat, 2005; Amudha and Banu, 2007; Ladhari et al., 2011; Rahaman et al., 2011; Rakesh, R., 2012; Sulieman, 2013; Ilyas et al., 2013; Lau et al., 2013; Panda, and Kondasani, 2014). Avkiran (1994) adopted SERVQUAL and developed the BANKSERV model to measure service quality in retail banking as perceived by customers. The BANKSERV model obtained four dimensions of service quality: staff conduct, credibility, communication, and access to teller service. Bahia and Nantel (2000) as well used the SERVQUAL model and developed a new scale for perceived service quality in retail banking. The proposed scale, called banking service quality (BSQ), had 31 items and six dimensions, namely: effectiveness and assurance, access, price, tangibles, services portfolio and reliability. Aldaigan and Buttle (2002) developed a new scale, called SYSTRA-SQ, to measure service quality perceptions of bank customers. Their 21-item scale consists of four dimensions: service system quality, behavioural service quality, service transactional accuracy, and machine service quality. Most recently Vanparia and Tsoukatos (2013) tested SERVQUAL, SERVPERF, BSQ and BANKQUAL for measuring the service quality of public and private banks in India. The purpose of their study was to find which of these models is the most effective for measuring service quality in banks. They discovered that the BANKQUAL scale has the highest reliability in comparison to other instruments tested in their research.

Studies of bank service quality have been conducted in many countries all over the world, but still studies in Southern Europe are relatively limited (Pepur 2006; Culibreg and Rojšek, 2010; Pisnik Korda and Snoj, 2010; Marinković and Senić, 2012) . Therefore this study will contribute to the knowledge about bank service quality by testing the SERVQUAL model in the banking sector in Croatia.

2 Methodology

In order to fulfill the proposed research objectives, empirical research was carried out, with the primary data collected through a modified SERVQUAL scale. The empirical research was conducted using primary data. This modified instrument had two parts, expectation and perception, with 22 questions each and 44 questions in total. In addition to the existing five dimensions, we added the dimension “availability” that is related to easy orientation in a bank, available and clear information, and convenient opening hours. For measuring expected and perceived service we used a 7-point Likert scale, ranging from 1 “strongly disagree” to 7 “strongly agree”. The third part consisted of demographic questions. This included gender, age, level of education, economic status, frequency of using eBanking and frequency of bank visits.

Data for this study were collected using a convenience sample over a 4-month period in 2012. In total, 1000 questionnaires were distributed and 511 returned, of which 56 were incomplete and omitted from the analysis. This makes a response rate of 45.50% (N=455).

In order to achieve the study goals, descriptive statistics, t-test, exploratory factor analysis, and reliability analysis were performed. Descriptive statistics was used to examine the demographic profile of the respondents and to evaluate service quality expectations and perceptions of bank customers. Furthermore, t-test was performed to determine the significance of differences between perceived and expected scores of service quality. Principal component analysis with varimax rotation was employed to derive factors from bank service attributes for the expectation and perception scale. Cronbach’s alpha coefficients were calculated to test reliability.

3 Results and discussion

The socio-demographic structure of the sample is shown in Table 1.

Table 1: Demographic characteristics of respondents

Items	Percentage	Items	Percentage
Gender		***Economic status***	
Male	49.2	Employed	60.2
Female	50.8	Unemployed	22.6
		Student	15.8
Age		Retired	1.3
16-25	14.5		
26-35	38.0	***Frequency of using eBanking***	
36-45	37.4	1-2 times per month	27.9
46-55	7.7	3-5 times per month	21.3
56-65	2.0	6 or more times per month	17.4
66 and above	0.4	I don't use this service	32.5
		Other	0.9
Level of education			
Primary school	3.1	***Frequency of bank visiting***	
Secondary school	48.8	1-2 times per month	65.7
College or university	46.1	3-5 times per month	23.7
MSc or PhD	2.0	6 or more times per month	8.4
		Other	2.2

Source: Authors

The gender composition of respondents in this study was almost equally represented by female (50.8%) and male (49.2%) respondents. In terms of age distribution, almost 75% of the respondents were between 26 and 45 years old. Regarding level of education, 48.8% of respondents indicated that they have finished secondary school while 46.1% have finished college or university. According to the results of analysis it can be seen that more than 60% of respondents were employed and only 1.3% were retired. Regarding frequency of using eBanking, the majority of respondent are frequent users (66.6%), while 32.5% indicated that they do not use this service at all. More than half of the respondents (65.7%) visit a bank 1-2 times per month.

Table 2 reports the results for the respondents' expectations and perceptions of bank service quality, as well as significant differences in the mean scores.

The mean scores of customers' expectations ranged from 6.38 to 6.81. The lowest expectation items were noted for "presenting new products, services and benefits" (M=6.38) and for almost all items related to the tangible aspects of service quality: "visually appealing physical facilities" (M=6.41), "visually attractive parking area" (M=6.55), "attractive looking printed materials" (M=6.55). Meanwhile, the highest expectations focused on "performing service at the promised time" (M=6.81) and staff kindness and politeness (M=6.75). Furthermore, high expectations scores were noted regarding "available and clear information" (M=6.74) and "clean and tidy bank" (6.74). The overall mean score for service quality expectation items was 6.64, indicating high customer expectations regarding bank service quality.

Table 2: Univariate and bivariate statistical analysis

Attributes	Expectations		Perceptions		Gap	t-value	Sig. (2-tailed)
	Mean	SD	Mean	SD			
V1 - Modern looking technical equipment	6.62	0.894	5.53	1.063	-1.09	16.772	0.000
V2 - Visually appealing physical facilities	6.41	1.106	5.01	1.162	-1.40	18.381	0.000
V3 - Suitably dressed and neat bank staff	6.70	0.725	5.14	1.232	-1.56	22.571	0.000
V4 - Attractive looking printed materials	6.55	0.881	4.82	1.266	-1.73	24.049	0.000
V5 – Clean and tidy bank	6.74	0.612	5.04	1.343	-1.70	24.494	0.000
V6 - Convenient location	6.67	0.712	4.82	1.438	-1.85	23.723	0.000
V7 - Visually attractive parking area	6.55	0.994	3.80	1.690	-2.76	32.938	0.000
Mean TANGIBLES	***6.61***	***-***	***4.88***	***-***	***-1.73***	***-***	***-***
V9 - Performing service at the promised time	6.81	0.512	4.36	1.405	-2.45	34.167	0.000
V10 – Understanding customers' specific needs	6.69	0.683	4.37	1.445	-2.32	29.400	0.000
V11 - Correctly performed service from the very first time	6.59	0.853	4.27	1.454	-2.32	26.957	0.000
V12 - Error-free service	6.65	0.839	4.25	1.477	-2.40	29.262	0.000
Mean RELIABILITY	***6.69***	***-***	***4.31***	***-***	***-2,38***	***-***	***-***
V13 - Inform customers about the exact time when service will be performed	6.63	0.845	4.27	1.375	-2.36	29.635	0.000
V14 - Providing a prompt service	6.67	0.690	4.25	1.395	-2.42	31.324	0.000
V15 - Bank staff availability	6.58	0.825	4.24	1.335	-2.34	29.824	0.000
V16 - Bank staff has time to answer customers' questions	6.66	0.762	4.28	1.369	-2.38	31.992	0.000
Mean RESPONSIVENESS	***6.64***	***-***	***4.26***	***-***	***-2.38***	***-***	***-***
V17- Trustworthy bank staff	6.72	0.601	4.39	1.339	-2.33	33.080	0.000
V18 - Kind and polite bank staff	6.75	0.528	4.53	1.384	-2.22	31.904	0.000
Mean ASSURANCE	***6.74***	***-***	***4.46***	***-***	***-2.28***	***-***	***-***
V19 - Providing individual attention	6.59	0.842	4.40	1.326	-2.19	30.115	0.000
V22 - Presenting new products, services and benefits	6.38	1.159	4.45	1.386	-1.93	22.490	0.000
Mean EMPATHY	***6.49***	***-***	***4.43***	***-***	***-2.06***	***-***	***-***
V20 - Easy orientation in bank area	6.64	0.767	4.72	1.357	-1.92	24.688	0.000
V21 - Available and clear information	6.74	0.545	4.49	1.379	-2.25	31.688	0.000
V8 – Convenient opening hours	6.66	0.855	4.18	1.520	-2.48	30.886	0.000
Mean AVAILABILITY	***6.68***	***-***	***4.46***	***-***	***-2.22***	***-***	***-***
Overall mean for 22 attributes	***6.64***	***-***	***4,47***	***-***	***-2,17***	***-***	***-***

Source: Authors

The mean scores of customers' perceptions ranged from 3.79 to 5.53. "Visually attractive parking area" (M=3.79) received the lowest perception score, indicating that according to the customers' opinion parking area is not well customized. Lower perception scores were noted regarding "opening hours" (M=4.18), "bank staff availability" (M=4.24) and "providing a prompt service" (M=4.25). The respondents highly assessed the following bank attributes: "modern looking technical equipment" (M=5.53), "suitably dressed and neat bank staff" (M=5.14), "clean and tidy bank" (M=5.04) and "visually appealing physical facilities" (M=5.01). The overall mean score for service quality perception items was 4.47. This score indicates medium, but not sufficiently high, perception of bank customers regarding service quality.

The analysis of differences between expectation and perception scores for each item indicates negative gaps. The gap between customers' perceptions and expectations ranged from -2.76 to -1.09. The widest gap appeared in the item "visually attractive parking area" (-2.76), whilst the narrowest appeared in the item "modern-looking technical equipment" (M=-1.09). Moreover, other wide gaps appeared in the following items: "convenient opening hours" (-2.48), "performing service at the promised time" (-2.45), "providing a prompt service" (-2.42) and "error-free service" (-2.40). These indicate that the dimensions *reliability* and *responsiveness* have the widest gap among perceptions and expectations (-2.38). On the other hand, the narrowest gap appeared in the dimension *tangibles* (-1.73).

Further, the differences between expected and perceived scores were examined using a paired samples t-test (Table 2). The results indicate that there is a statistical significant difference between customers' perceptions and their expectations of service quality for all attributes. The level of confidence in all the variables is less than 0.05.

Exploratory factor analysis was conducted to identify the main factors that best explain customers' expectations and perceptions of bank service quality. Table 3 indicates KMO values and results of Bartlett's Sphericity Test for both scales.

Table 3: KMO and Bartlett's test for expectations and perceptions scales

TESTS		EXPECTATIONS	PERCEPTIONS
Kaiser-Meyer-Olkin's Test (KMO)		0.879	0.954
Bartlett's Sphericity Test	Chi-Square	6454.159	9824.713
	Degrees of freedom (df)	231	231
	Sig.	0.000	0.000

Source: Authors

The Kaiser-Meyer-Olkin value for both scales was high - expectations (0.879) and perceptions (0.954), indicating sufficient items for each extracted factor. Bartlett's Test for both scales (expectations - λ^2=6454.159, df=231, Sig.=0.000; perceptions - λ^2=9824.713, df=231, Sig.=0.000) was also significant, meaning that strong correlations exist between the items in each factor. After the verification of suitability of the scales for conducting factor analysis, the principal component method was used with varimax rotation.

The results of factor and reliability analyses of bank customers' expectations are presented in Table 4. The analysis for the expectations scale extracted five factors that explained 69.8% of the total variance in the data. Most of the factor loadings were greater than 0.6, meaning that the correlation of the items with the factors on which they were loaded is reasonably high.

Cronbach's alpha coefficients of the extracted factors varied from 0.712 to 0.908. The Cronbach alpha value for the overall expectations scale was 0.923. These values indicate a high reliability of the expectations scale.

Table 4: Factor and reliability analyses for expectations scales

EXPECTATIONS (N = 455)				
Items (n=22)	**Factor loading**	**Eigen value**	**% of Var.**	**Alpha value**
Factor 1		4.438	20.174	0.908
V-13	0.805			
V-15	0.777			
V-14	0.769			
V-12	0.769			
V-16	0.687			
V-11	0.676			
Factor 2		3.846	17.483	0.852
V-5	0.837			
V-3	0.805			
V-6	0.738			
V-7	0.681			
V-1	0.610			
V-20	0.520			
Factor 3		2.700	12.271	0.760
V-18	0.862			
V-21	0.753			
V-17	0.666			
V-19	0.438			
Factor 4		2.422	11.009	0.768
V-9	0.799			
V-8	0.722			
V-10	0.692			
Factor 5		1.951	8.869	0.712
V-4	0.792			
V-2	0.650			
V-22	0.605			
Total		***15.357***	***69.807***	***0.923***

Source: Authors

After examining the item descriptions, the five factors for the expectations scale were interpreted as follows:

- Factor 1 - "responsiveness" contains six items referring to bank staff availability, knowledge and willingness to help, as well as providing prompt and error-free service.
- Factor 2 - "tangibles" gathered six items related to the tangible aspect of bank service (bank location, cleanliness and tidiness of bank, easy orientation inside the bank and modern equipment).
- Factor 3 - "assurance" includes four items related to staff kindness, politeness and trustworthiness as well as their ability to provide customer individual intention.
- Factor 4 - "reliability" contains three items referring to delivering services when promised and understanding customers' specific needs.

- Factor 5 - "presentation of bank products" includes three items that are related to materials and facilities that help in presenting new products, services and benefits.

The results of factor and reliability analyses of bank customers' perceptions are presented in Table 5. The analysis for the perceptions scale extracted three factors that explained 72.510% of the total variance in the data. However, one factor (F3) contains fewer than three items and cannot be considered as a factor.

Table 5: Factor and reliability analyses for perceptions scales

PERCEPTIONS (N = 455)				
Items (n=22)	**Factor loading**	**Eigen value**	**% of Var.**	**Alpha value**
Factor 1		10.055	45.704	0.971
V-16	0.861			
V-15	0.842			
V-14	0.839			
V-18	0.836			
V-10	0.831			
V-17	0.829			
V-13	0.825			
V-11	0.823			
V-12	0.815			
V-19	0.798			
V-21	0.785			
V-20	0.778			
V-9	0.734			
V-22	0.692			
Factor 2		19.082	64.797	0.891
V-3	0.819			
V-2	0.800			
V-4	0.771			
V-5	0.771			
V-1	0.751			
V-6	0.517			
Factor 3		1.697	7.713	-
V-7	0.906			
V-8	0.643			
		30.834	***72.510***	***0.965***

Source: Authors

Thus, the final solution retained two factors that represent the main dimensions of perceived bank service quality in Croatia. The two remaining factors are labeled as follows:

- Factor 1 - "service performance"- includes fourteen items related to the intangible aspect of bank service.
- Factor 2 - "tangibles" - includes six items related to the physical appearance of facilities and staff.

The results of the reliability analysis for the perceptions scale showed that Cronbach's alpha coefficients of the extracted factors varied from 0.891 to 0.971. The overall Cronbach alpha value is 0.965, indicating a high reliability of the perceptions scale.

4 Conclusion and implication

The present study explored customers' expectations and perceptions of bank service quality. The results of descriptive analysis suggest that bank customers have high overall service quality expectations (overall mean score was 6.64). The highest expectations were related to "performing service at the promised time", "staff kindness and politeness", "available" and clear information" and "clean and tidy bank". The findings of descriptive analysis for bank customers' perceptions indicate not sufficiently high perceived service quality (overall mean score was 4.47). The highest perceptions were related to "modern looking technical equipment", "suitably dressed and neat bank staff", "clean and tidy bank" and "visually appealing physical facilities". These results indicate that bank customers are mostly satisfied with visual bank and staff appearance.

The results of the study lead us to the conclusion that Croatian banks do not meet the expectations of their customers. The widest gap appeared for "visually attractive parking area", "convenient opening hours", "performing service at the promised time", "providing a prompt service" and "error-free service". A significant negative gap for these items indicates that banks need to educate staff to be more punctual, reliable and responsible. A comparison of the respondents' expectation and perception scores revealed that differences were significant in all bank attributes. In order to reduce differences between expected and perceived service, bank marketing managers should pay more attention to marketing activities and should not give unrealistic promises to the customer.

The findings of exploratory factor analysis for the expectations scale identified five factors of which four are the same as in the original SERVQUAL model (responsiveness, tangibles, assurance, reliability). The dimension "empathy", which originally existed in the SERVQUAL model, has not been confirmed in this research. Exploratory factor analysis for the perceptions scale extracted two factors; one that comprised items related to the intangible aspect of bank service ("service performance") and one with items of the tangible aspect of service quality ("tangibles"). Results of reliability analysis indicate that the Cronbach alpha value for overall expectations and perceptions scales is above 0.90, suggesting that both scales are highly reliable.

This study makes a contribution to the knowledge about banking service quality and provides useful information that could help bank management in providing high service quality and increasing the customers' level of satisfaction. A modified version of the SERVQUAL scale has been proven to be reliable and suitable for use by bank managers to enhance understanding of customer expectations and deliver service as promised.

As with any study, the present research is not without limitations. First, the period of data collection could be considered as one of the limitations. Data was collected during a four-month period and it would be interesting to collect data during the entire year. Sample size can also be considered as one of the limitations of this research. The structure of the sample represents yet another limitation. It is evident from the sample description that a small number of retirees participated in the research. Although this study included a variety of bank service quality attributes, there could also be other relevant items that influence bank perceived service quality.

Since it has been noted in this research that more than 66% of respondents are using eBanking regularly and the number of users is expected to continue to grow, future research could incorporate attributes that measure e-service quality in order to capture all the aspects of service. To generalize the findings similar studies should be conducted in other countries, especially in ones that have different economic and socio-cultural environments. Finally, future studies should make a comparative study between different service quality models (e.g. SERVQUAL, SERVPERF, BANKQUAL, SYSTRA-SQ) in order to create a universal model for measuring service quality in the banking sector.

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