

## **Service Quality Gap and Customers' Satisfactions of Commercial Banks in Malaysia**

Izah Mohd Tahir \* and Nor Mazlina Abu Bakar\*\*

*Commercial banks play a significant role in the economy, making up one of the biggest provider of services in the Malaysian economy. Hence, providing better service quality is vital as banks have to compete for customers. The aim of this study is to investigate the level of service quality of commercial banks in Malaysia from the perspective of bank customers and assessing the satisfactions towards the services provided by the commercial banks. A questionnaire used in this study is limited to a sample of 300 respondents in the East Coast region of Malaysia. The measurements used were based on widely accepted SERVQUAL model (Parasuraman et. al. 1985, 1988, 1991). A descriptive statistics analysis (mean and paired t-test) was used to evaluate the level of service quality of Malaysia's commercial banks from the customers' perspective. This study examined the service quality gap by comparing customers' expectations and their actual perceptions. In addition, this study focused on their satisfactions towards the service provided by commercial banks. The results of the study indicated that the overall service quality provided by the commercial banks was below customers' expectations. Responsiveness was rated as the most important dimension followed by reliability, tangibility, assurance, and empathy. Further, the findings also found that customers were slightly satisfied with the overall service quality of the banks.*

Keywords: Service Quality, Expectations, Perceptions, Satisfactions, Banks, Malaysia

### **1. Introduction**

Commercial banks form the largest and are the country's most important group of financial institutions. With stiffer competition among domestic and foreign banks, therefore it is important for the commercial banks in Malaysia to improve the quality of their services. Further, increased in consumer preferences toward banking products choosing the banks that give them the best service quality is a priority. As globalisation and liberalisation of financial institutions accelerate, competition among banks in offering products and services becomes more intense. Customers in Malaysia become more educated better informed, more internalized, and as Malaysian economy becomes more and more knowledge based, the demand for high quality services expands with increases in customers' buying power.

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\* Dr Izah Mohd Tahir, and \*\* Nor Mazlina Abu Bakar  
Lecturers, Faculty of Business Management & Accountancy, Universiti Darul Iman Malaysia (UDM), KUSZA Campus, Kuala Terengganu, MALAYSIA

Furthermore, with the merger process between banks in Malaysia to form only ten big banks with their partners, competition for clients among them is intense. Hence, commercial banking industry in Malaysia has to think strategically by providing high quality products and services to satisfy their customers. In order for these banks to provide high quality products and services, they need firstly to investigate the level of customers' perceptions and expectations to their service quality from their customers' perspective. Through that information, they could then strategically adjust their service quality to fit the local and global markets.

The purpose of this study was to examine the level of service quality in Malaysia's commercial banking industry from the perspective of bank customers. The specific objectives were as follows:

- To examine customers' expectations and perceptions of service quality provided by the commercial banks in Malaysia
- To assess customers' satisfaction towards the service quality of commercial banks in Malaysia.

The paper is structured as follows. The next section, Section 2 outlines the literature review, while Section 3 details the data and methodology used in the study. Section 4 presents the findings and Section 5 highlights the limitations and future research. Section 6 of this paper presents the conclusion and implication.

## **2. Brief Literature Review**

Defining and measuring quality in services might be difficult due to the intangible nature of the service offering. Many of the researches on service quality have been carried out within the framework of widely accepted service quality model (SERVQUAL instrument) developed by extensive research by Parasuraman *et. al.* (1985, 1988, and 1991). Since then, many researchers have used this 22-item scale to study service quality in different sectors of the services industry including financial institutions (Gounaris *et. al.* 2003; Arasli *et. al.* 2005).

Basically, the service quality model was derived from the magnitude and directions of five gaps as follows:

- Gap 1 (Understanding): the difference between consumer expectations and management perceptions of consumer expectations
- Gap 2 (Service standards): the difference between management perceptions of consumer expectations and service quality specifications
- Gap 3 (Service performance): the difference between service quality specifications and the service actually delivered

- Gap 4 (Communications): the difference between service delivery and what is communicated about the service to consumers
- Gap 5 (Service quality): the difference between customer expectations of service quality and customer perceptions of the organization's performance

Gaps 1 to 4 affect the way in which service is delivered and these four gaps lead to Gap 5. Therefore, the extent of Gap 5 depends on the size and direction of these four gaps (Gap 1, Gap 2, Gap 3 and Gap 4).

In the banking industry, the study on service quality has been undertaken for example by Yavas *et. al.* (1997), Bahia and Nantel 2000; Lassar *et. al.*, 2000; Duncan and Elliott, 2002; Jabnoun and Al-Tamimi, 2002; and Arasli *et. al.*, 2005.

In the study of service quality in the banking sector in Turkish banking, Yavas *et. al.* (1997), focused on the relationship between service quality on consumer satisfaction, complaint behaviour and commitment. Their study found that overall service quality was a significant determinant customer satisfaction, complaint behaviour and commitment.

Bahia and Nantel (2000) suggested alternative scale for the measurement of perceived service quality in retail banking. Their study found that when comparing BSQ dimensions and SERVQUAL, it seemed that BSQ dimensions were more reliable than SERVQUAL. On the other hand, Lassar *et. al.* (2000) studied service quality using two major service quality constructs, SERVQUAL and Technical/Functional Quality models to the private banking industry. They found that Technical/Functional Quality-based model of service quality is better suited compared to SERVQUAL-based model. Duncan and Elliot (2002) however explored the relationship between customer service quality and financial performance in Australian banks and credit unions. They found that there was significant relationship between financial performance and customer service quality scores.

Jabnoun and Al-Tamimi (2002) examined service quality at UAE commercial banks using SERVQUAL model and included thirty items in the five dimensions of SERVQUAL. When they tested the developed instrument for reliability and validity, they found that the instrument had only three dimensions.

Finally, Arasli *et. al.* (2005) studied service quality perceptions of Greek Cypriot bank customers using SERVQUAL model. They however, extend the study by looking at the relationship between service quality, customer satisfaction and positive word of mouth. They found that the expectations of bank customers were not met where the largest gap was obtained in the responsiveness-empathy dimension. In addition, the reliability items had the highest effect on customer satisfaction, which in turn had a statistically significant impact on the positive word of mouth.

Contrary to the large number of studies of service quality in the banking industry in the west, studies are still considered scarce. In Malaysia, for example, studies on service quality were conducted by for example, Sudin *et. al.* (2004) and Izah and Wan Zulqurnain (2005). These two studies were conducted on Islamic financial institutions and adopted the CARTER model as suggested by Othman and Owen (2000; 2001). It is hoped that this study will be the platform for discussing the issues on service quality and customer satisfaction in the Malaysian banking industry.

### **3. Data and Methodology**

The respondents selected were customers of commercial banks in three states in the East Coast region of Malaysia. A total of 300 questionnaires were distributed and only 255 were useable for analysis

The questionnaire designed for this study was based on the widely accepted SERVQUAL model. A total of 22 attributes were categorized under five dimensions as follows:

- Tangibility (4 attributes)
- Reliability (5 attributes)
- Responsiveness (4 attributes)
- Assurance (4 attributes)
- Empathy (5 attributes)

The questionnaire was divided into four sections. The first section was designed to measure the respondents' expectations (E) regarding service quality in the banking industry. The second section was related to respondents' perceptions (P) of service quality actually provided by the commercial banking industry in Malaysia. A five-point Likert Scale ranging from strongly disagree = 1 to strongly agree = 5, was used to measure the 22 attributes under five dimensions mentioned above. The third section dealt with the respondents' satisfaction levels and lastly on demographic profiles of the respondents.

Statistical Package for Social Science (SPSS) package will be used to analyse the data set. A frequency distribution was used to describe the sample. The mean and standard deviations of the attributes were also computed. Finally, paired *t*-tests were used to test the significant difference between sample means.

## 4. Findings and Discussion

### 4.1 Analysis of Demographic Profiles of Respondents

The sample of bank customers consisted of more females (59 percent) than males (41 percent). More than 50 percent of the respondents had a University or college education. 28 percent of these respondents earned more than RM24,000 per year and worked in the private sector (51 percent), public sector (19 percent) and the remainder (30 percent) worked either in semi government agency or self-employed.

### 4.2 Analysis of Service Quality Gap (Gap 5)

This analysis was done in order to measure the gap between the customers' expectations and their perceptions of the commercial banking industry, based on the 22 items or attributes pertaining to service quality. In computing the paired-*t* test of SERVQUAL scores, 22 statements of the SERVQUAL in the questionnaire which represent the expectations and perceptions statements were grouped and linked according to the five dimensions as mentioned earlier. The results are presented in Table 1.

In the table, a negative gap indicates that customers perceived that the level of service provided by banks did not meet their expectations. On the other hand, a positive gap indicates that customers perceived that the level of service quality exceeded their expectations. A comparison of bank customers' actual perceptions of service quality with their expectations, using paired *t*-test, showed a statistically significant difference on all the 22 attributes examined. The biggest gaps ( $\geq 0.50$ ) were found in the following attributes; 20 "staff giving customers best interest at heart" (-0.54 sig.  $< 0.50$ ), 8 "staff performing services right the first time" (-0.51 sig.  $< 0.50$ ), and 12 "staff willingness to help" (0.51 sig.  $< 0.50$ ). These attributes in those dimensions were the most serious shortfalls and require serious attention by banks in terms of making improvements. The bigger the gap, the serious the level of service quality is from the customers' point of view.

The overall Gap 5 score was -0.36 (sig.  $< 0.05$ ), which indicated that, the overall service quality provided by the commercial banks was below customers' expectations. When we ranked the dimension according to gap scores, we found that the biggest gap (-0.42) was pertaining to responsiveness followed by assurance (-0.39), reliability (-0.37), empathy (-0.35) and tangibility (-0.27).

**Table 1**  
Gap mean differences between customers' expectations and perceptions of service quality in the commercial banks in Malaysia (n = 255)

Attributes	E (mean)	P (mean)	Gap (P – E)	t-value
<b>Tangibility</b>				
1. Modern-looking equipments	4.00 (0.88)	3.68 (0.82)	-0.32	5.25*
2. Appealing physical activities	3.73 (0.96)	3.56 (0.83)	-0.16	2.93*
3. Neat appearance of staff	4.03 (0.92)	3.74 (0.82)	-0.29	4.59*
4. Materials associated with the service are visually appealing	3.79 (0.88)	3.51 (0.84)	-0.28	4.94*
<b>Reliability</b>				
5. Staff keeping promise	4.01 (1.04)	3.68 (0.94)	-0.33	4.88*
6. Sincere interest in solving customers' problems	3.87 (1.05)	3.57 (0.95)	-0.30	4.67*
7. Staff performing services right the first time	4.05 (0.97)	3.54 (0.94)	-0.51	7.90*
8. Provide services at the time they promise to do so	4.11 (0.98)	3.64 (0.89)	-0.47	7.46*
9. Insist on error-free records	3.82 (1.07)	3.59 (0.97)	-0.23	3.43*
<b>Responsiveness</b>				
10. Staff telling customers exactly when services will be performed	3.96 (0.98)	3.62 (0.86)	-0.33	5.19*
11. Prompt service	4.08 (0.94)	3.64 (0.86)	-0.44	7.15*
12. Staff willingness to help	4.12 (0.88)	3.62 (0.90)	-0.51	7.93*
13. Prompt response from staff	3.71 (1.00)	3.33 (0.88)	-0.38	5.74*
<b>Assurance</b>				
14. Behaviors of staff instill confidence in customers	4.12 (0.88)	3.64 (0.85)	-0.48	7.15*
15. Customers feel safe in their transactions	4.13 (0.98)	3.76 (0.92)	-0.37	6.33*
16. Friendliness and courtesy of staff	4.11 (0.97)	3.78 (0.74)	-0.33	5.42*
17. Staff having knowledge to answer questions	4.10 (0.92)	3.73 (0.79)	-0.38	5.77*
<b>Empathy</b>				
18. Individual attention given by staff	3.71 (0.97)	3.44 (0.90)	-0.27	3.99*
19. Convenient operating hours	3.97 (1.05)	3.73 (0.98)	-0.24	3.68*
20. Staff giving customers best interest at heart	4.19 (0.91)	3.65 (0.91)	-0.54	7.61*
21. Personal attention given	3.56 (0.99)	3.23 (0.88)	-0.33	5.63*
22. Understanding the specific needs of customers	3.94 (1.01)	3.56 (0.91)	-0.38	5.81*
<b>Overall combines scale of 22 attributes</b>	3.96 (0.17)	3.60 (0.14)	-0.36	17.05**

**Notes** : \**t*-test two-tailed probability <0.05; \*\**t*-test two-tailed probability <0.01; standard deviations are in parentheses; a negative gap indicates that customers perceived that service delivery did not meet their expectations; a positive gap indicates that customers perceived that service delivery exceeded their expectations

### 4.3 Analysis of Customers' Satisfaction

The purpose of analyzing customers' satisfaction in this study was to confirm the degree of satisfaction or dissatisfaction as a result of high or low service quality level. The respondents were asked to rate statements based on their level of satisfaction; from 1 to 5 where 1 = extremely dissatisfied, 2 = dissatisfied, 3 = neutral, 4 = satisfied and 5 = extremely satisfied. The table showed that the mean for overall customers' satisfaction was 3.64, personal contact was 3.44 and quality of service was 3.63. This indicates that customers were slightly satisfied with the service provided by the commercial banks in Malaysia.

**Table 2**  
Customers' Satisfaction

Description	Mean
Overall Satisfaction	3.64
Personal Contact	3.44
Quality of Service	3.63

## 5. Limitations and Future Research

The main limitation of this study, although it may be overcome in future research, is that all the data were gathered from a single region. It would be interesting to replicate the study on a national sample. This would provide a better generalization for the banking sector. Additionally, since Malaysia aspires to become globally competent financial centre, it would be appropriate and relevant to replicate the study using international samples. This is because when banks in this country provide services to international customers such as business travelers, tourists, students and expatriates, in a way, it is just like exporting services to foreign markets while staying at home. Therefore, the quality and customer satisfaction issues attached to services are subject to international domains.

## 6. Conclusion and Implication

This study builds on earlier research by one of the authors and examines the level of service quality of Malaysia's commercial banking industry from the

customers' perspective. Customers' perceptions are very important especially in the service industry such as the commercial banking industry since there is high customer involvement in the delivery of the service itself.

The result of Gap 5 analyses showed that customers' perceptions for commercial banking industry in Malaysia were consistently lower than their expectations. These negative gaps especially pertaining to "staff giving customers best interest at heart", "staff performing services right the first time", and "staff willingness to help" were important to consider in terms of making improvement efforts. The bigger the gap, the serious the level of service quality that need to be improved, from the customers' point of view. As an overall, the gap score was -0.36 which was considered low. The opposite was the case for Islamic banking where the overall gap score was slightly higher (-0.46 sig. <0.50).

As an overall, customers of commercial banks in Malaysia were slightly satisfied with the services provided by the banks. However, banks should not be happy with these findings because all the attributes had negative scores and these need to be improved otherwise the gaps will widen and therefore cause serious shortfalls.

Given today's competitive environment, and in response to the quality push and the aspiration of the country to become a globally competent, at this juncture, we believe it is appropriate for the management of the commercial banks to seriously examine their corporate quality programs and customer service system. In addition, they must also consider that their performance measures now have to place a value on better responsiveness to customer needs. These measures and changes can be expensive in terms of employee time and effort, but the management of these banks needs to find ways to overcome these hurdles, otherwise the increasing competition from international banks can shrink their market shares.

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