

Research Article

# The Evaluation of Service Quality in the Growing Banking Sector in Kosovo

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## Abstract

*Service quality is one of the important factors in determining the success or failure of internet banking. In order to survive in the highly competitive corporate banking industry, it is crucial for banks to understand the expectations of customers. Also in order to sustain competitive advantage in the banking industry, it is important for banks to understand the service quality dimensions that are perceived as most important by customers. Moreover banks should understand the impact of those dimensions on overall perceived service quality and customer satisfaction. This research aims to find out the most important service quality dimensions for one of the commercial banks in Kosovo from customers perspective. For confidentiality reasons the name of The Bank will remain confidential. The Bank. Also using the gap score analysis, this research aims to examine the service quality gaps for The Bank. Basing on the gap scores, the research aims to find out how much customers are satisfied with the services. Findings and results of the research indicate significant difference between expectations and perceptions of The Bank customers in Kosovo. Interestingly, „responsiveness“ was found as the most important service quality dimension for customers of The Bank. Moreover, implications for bank are discussed and recommendations are suggested for further research.*

**Keywords:** *Servqual, banking sector, costumer, quality, service.*

## 1. Introduction

The shift in economic structure caused many of the production based firms to move in to the business of delivering services. Also, the intense competition among the production based firms made them to become either purely service based or product based and service based firms. Hence, service industry has become one of the most competitive industries. One of the ways of gaining competitive advantage is through providing high quality services (Dawkins and Reichheld, 1990). Therefore, service quality has gained importance in service marketing literature (Schneider and White, 2004). Moreover, research has already shown that service quality contributes to profitability, costs and customer satisfaction (Grant *et al*, 2010). Hence, it is important for service providers to measure and evaluate the quality of their services. Through evaluation, the service providers can further improve and serve their customers in a better fashion.

Kosovo has a new, dynamic and free market economy. Rapid development of technology and communication has made Kosovo a part of globalization. Also, the changing trends and living styles of people are making them to use various

channels of banks and demand high quality services from the banks. Foreign and domestic owned banks are expanding their presence across Kosovo to tap the growing market and serve more consumers. Hence, in such an emerging economy, it is vital for banks to provide high quality of services to customers. The aim of this research is to measure the service quality levels of the services provided by the commercial banks operating in Kosovo, using The Bank in Kosovo as a case study.

## 2. Service Quality

Quality is one of the significant issues considered by customers in both product and service based offerings (Solomon 2009, p.413). As a result of economic changes across the industries, the concept of quality has changed considerably (Al-Dararkah, 2002). Also, quality is seen to be one of the major determinants for marketers, in differentiating themselves from their competitors (Boshoff & Teblanche, 2004). On the other hand, due to the increase in alternatives, product differentiation has become relatively difficult and highly impossible (Brahmbhatt & Panelia, 2008). As a result, product based firms shifted their focus on to delivering services to overcome intense competition and improve profits (Dedeka, 2003). Hence,

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organizations across the world turned in to either purely service based or product and service based and eventually competes on the basis of service quality (Capar & Kotabe, 2003). As such, service quality has become most extensively studied subjects with a specific interest in its measurement (Kang & James, 2004).

The study of service quality has gained much importance when marketers identified that quality services could build their competitive advantage and competitiveness (Parasuraman *et al*, 1985). Gronroos (1984) asserts service quality as a set of perceived judgements resulting from the customer's comparison of their expectations and perceptions of the service. Also, he adds that service quality is made up of two components-technical quality which refers what the service provider delivers and functional quality which refers how the service is delivered. Moreover, Kasper *et al* (1999) also suggests service quality as the degree to which the service provider satisfies the expectations of the customer.

In line with the propositions made by Gronroos (1982), Parasuraman *et al* (1985, 1988) defined service quality as difference between consumer's expectations of what they want and consumer's perceptions of what they get. Some of the most recent researchers also agree with this notion and defines service quality as difference between two scores where better service quality results in smaller gap (Landrum *et al*, 2008). Based on their conceptualization and definition, Parasuraman *et al* (1985, 1988) developed a service quality measurement scale called SERVQUAL. The SERVQUAL scale has been widely accepted in service quality literature and applied in various service settings (Jain & Gupta, 2004).

Despite the widespread popularity, SERVQUAL received several criticisms in the marketing literature in terms of its applicability in various industries. Cronin & Taylor (1992) argued that perceptions alone are better predictors of service quality. In addition, they also argue that expectations should not be included in the service quality measurement instrument.

### 3. Service quality in banking sector

Consumers across the world became more quality conscious and demand for higher quality services from their service providers (Lee, 2005). The increase in technology and communication systems in banking industry contributed to resemblance amongst banks across the world (Shanka, 2012). As a result, banks are now facing intense competition and are obliged to provide excellent services to their customers (Harvey, 2010). Also, service quality has been identified as one of the critical success factors and provides high level of customer satisfaction in banking industry (Ahmossawi, 2001). Moreover, it has been argued that better quality services provides various benefits to banking industry like profitability, increase in sales, word of mouth appreciation and better customer relationships

(Ladhari *et al*, 2010; Wang *et al*, 2004; Bauman *et al*, 2007). As a result, measuring service quality has become inevitable in order to continuously improve and facilitate customer satisfaction in banking industry.

In the banking sector, the study on service quality has been undertaken by various authors like Santhiyavalli (2011), Brahmhatt and Panelia (2008), Shanka (2012), Ilyas *et al* (2013), Saghier and Nathan (2013), Mohammad and Alhamadani (2011), Kumar *et al* (2010), Sadeghi and Bemani (2011).

Recently, Santhiyavalli (2011) conducted an empirical research to evaluate the service quality of State Bank of India in Coimbatore district, India. A modified SERVQUAL scale with 22 statements under 5 dimensions was used in this study in order to capture the expectations and perceptions of customers. The findings of the research shows that reliability, responsiveness and empathy are the most important dimensions considered by customers while evaluating the overall service quality. This is in line with the findings of the research conducted by Arsali and Smadi (2005) who suggests that reliability factor has the highest impact on customer satisfaction.

In banking sector, another study was conducted on service quality by Brahmhatt and Panelia (2008) to measure and compare service quality among public, private and foreign banks in India. A modified version of SERVQUAL was used with 22 questions to measure overall service quality. The gap score analysis indicates the tangibility dimension has fewer gaps and hence customers are more satisfied with the appearance, ambience and environment of the banks. Also, among the three, the gap scores for all dimensions are less for foreign banks indicating that the overall service quality of foreign banks is better than public and private sector banks. However, the study also suggests that Indian banking customers are highly reliable on public sector banks with negligible gap between their expectations and perceptions of service quality.

Most recently, Shanka (2012) conducted a study to investigate and measure the quality of services offered by private banks in Ethiopia. The study employed the SERVPERF scale with five dimensions to investigate the relationship between service quality, customer satisfaction and loyalty. The findings of this study proved that empathy and responsiveness are the key factors in achieving customer satisfaction and thereby customer loyalty.

Furthermore, Ilyas (2013) conducted a research to determine the service quality of banks in Lahore using the SERVQUAL questionnaire which consist of 22 questions. The study revealed that empathy and assurance have the highest values of expectations followed by responsiveness and reliability. These findings were in line with the factors revealed by Zhou (2004) who suggested that reliability and assurance have strong influence on banking service quality and customer satisfaction.

A study to measure the quality of services from the perspectives of Egyptian customers by Saghier and Nathan (2013) revealed that reliability and

responsiveness play crucial role in banking service quality. Moreover, empathy and assurance follows next to each other in achieving customer satisfaction through superior service quality. Also, this study employed the SERVQUAL measurement scale.

#### 4. Kosovo Banking Sector

Banking sector is one of the best performing sectors in Kosovo with a wide range of financial services and increase in deposits and loans (Kosovo's Economy, 2013). The Central Bank of the Republic of Kosovo holds the authority to license, regulate and supervise the financial institutes, especially banks in Kosovo. Also, the central bank has already achieved laudable progress in promoting the growth and stability of banking sector in Kosovo since its independence (IMF Country Report No. 13/99, 2013). Although the banking sector is concentrated, the sector is still open for new players, both domestic and international. There are nine banks operating in Kosovo with foreign banks holding the largest market share. The Kosovo banking sector remained liquid, profitable and capitalized with increase in non-performing loans from 5.5 percent in 2011 to around 7.5 percent (IMF Country Report No. 222, 2013). Despite the fluctuations in the economy, lending activity has been one the key growth areas for Kosovo banking institutions. In the second quarter of 2012, banks reported increased demand in credit from small and medium scale industries (Financial Stability Report, 2012). Also, the Kosovo banking sector is expanding its network in terms of branches, ATM's and Point of Sale terminals (Investing in Kosovo, KPMG Report, 2013).

#### 5. The Bank overview

For the purpose of the confidentiality, the name of the bank with not be disclosed, however, in the text it will be referred as The Bank. The Bank is a development oriented full service bank head quartered in Pristina, Republic of Kosovo. The Bank offers a wide range of banking services to private individuals and enterprises. The Bank offers customized services to various customers based on their situation and on their financial analysis. The has its branches across Kosovo including Pristina, Mitrovica, Gjilan, Gjakova, Peja, Prizren and Ferizaj

The Bank specialize in working with very small business and small and medium scale enterprises in providing them various financial services. The Bank provides a range of modern financial services including account services, cards and efficient transactions, advise on liquidity management or accounting and reporting, payroll, documentary business and trade finance services. These services help businesses to grow and expand more efficiently in various nations. The Bank also provides its services to private individuals and encourage ordinary households to save. Its's strength lies in its years of experience with

wide range of markets and clients. Moreover, The Bank helped various businesses across nations to overcome and sustain the economic downturns and crises.

The Bank continuously strive to design and offer technologically advanced services including e-Banking, SMS Services, ATM Services and Call Center Services to its clients. The Bank recently launched its new version of e-Banking service with added functions to enhance the self service options for online banking customers. Moreover, The Bank offers SMS services to its clients to track their account details including balance information and transactions. The Bank has a wide network of more than 100 ATM's throughout Kosovo which allows the clients to access funds and conducts various transactions through ATM machines.

The most important factors that contribute towards the success of The Bank include its approach towards customer service and human resource policies. Also, The Bank strives to further improve its quality of services through innovative products and services.

#### 6. Research methodology

The research design framework or the research onion developed by Saunders *et al* (2007) illustrates all the stages and requirements to complete the research process. These stages include philosophies, approaches, strategies and choices. Research philosophy has been defined as the belief about the way in which data about a phenomenon should be gathered, analyzed and used (Guba and Lincoln, 1994).

The positivist approach is derived from natural science and is based on testing the hypothesis derived from that of the existing theory. Positivism approach is based upon the values of reason, truth and validity and is purely focused on facts gathered from observations (Lewis and Thornhill, 2007). Constructivism, in contrast to positivism and post-positivism, is an approach which depends on multiple realities of different people (Krauss, 2005).

The aim of this research is to measure the service quality levels of The Bank customers in Kosovo by studying the perspectives of various customers. Also, the research aims to identify the most important service quality dimensions based on the responses from the customers. As such, it is evident that the researcher is interested in finding out the diverse perspectives of individuals. The research philosophy is based on constructivism.

Judgment sampling technique will be used in this research to target the sample population who possess at least some experience in conducting banking transactions with The Bank. By selecting the appropriate sample, the researcher aims to further generalize the findings (Gill and Johnson, 2002). Also, Judgment sampling is a non-probability sampling technique which is economical and effectively gains responses from the selected sample.

In order to achieve this objective, the service quality questionnaire used in this research included a section that asked respondents to divide 100 points

among all the five dimensions. They were asked to assign more points to most important dimensions and less points to least important dimensions from their perspective.

**7. Data analysis**

The main analysis of this study includes application of quantitative procedure of SERVQUAL to the dimensions used in the study related to online banking service quality. This includes the importance weight analysis and gap score analysis. Importance weight analysis is to find out the most important dimensions from customers' point of view. Also, perceptions minus expectation scores are calculated to identify the service quality gaps. Also, descriptive statistics were performed to understand the present satisfaction levels of Kosovo The Bank customers.

One of the crucial objectives of this research is to critically examine the most important service quality dimensions for the The Bank this objective, the service quality questionnaire used in research included a section that asked respondents customers in Kosovo. In order to achieve this to divide 100 points among all the five dimensions. They were asked to assign more points to most important dimensions and less points to least important dimensions from their perspective. Table 1 illustrates the importance weights assigned by the respondents for each of the dimensions.

**Table 1** Importance weights assigned by The Bank customers

Dimension	Weight
Tangible	17.06
Reliability	21.55
Responsiveness	25.34
Assurance	18.96
Empathy	17.06

*Responsiveness*

Responsiveness has been ranked as the most important service quality dimension by The Bank customers in Kosovo. The customers of The Bank assigned the highest value weight to this dimension i.e. 25.34. The findings of this research are in line with the earlier studies. In a study conducted by White and Nteli (2004), responsiveness was found to be the most important service quality dimension among the banking customers in UK and almost all the European countries.

*Reliability*

The average weight assigned by the respondents for Reliability is 21.55 which is the second highest weight among all the dimensions. This is in line in with the findings of recent study conducted by Suleiman (2013) who suggested that reliability is the second most important service quality dimension for the Jordan

banking customers. This shows that customers of The Bank expect their bank to be more responsive towards their requirements.

*Assurance*

Assurance has been ranked as the third most important service quality dimension by The Bank customers in Kosovo. The respondents assigned a weight of 18.96 for this particular dimension. Gupta (2008) suggested that assurance/trust is one of the most important service quality dimensions for Indian banking customers. Moreover GVU (2004) study reveals that familiarity with The Bank and reputations are considered to be the most important factors by 68% of global banking customers.

*Tangible*

The 'Tangible' dimension has been assigned the weight of 17.06 by The Bank customers in Kosovo. The respondents assigned an average weight of 17.06 for this dimension. This is in line with the findings of Rahaman *et al* (2011) who found that tangible was among the bottom three aspects of service quality dimensions for private commercial bank customers in Bangladesh. Hence the findings of this research are in line with the earlier findings.

*Empathy*

Empathy and tangibles were assigned lowest weights among all the service quality dimensions considered in this research. Both the dimensions were given a weight of 17.06 by The Bank customers in Kosovo. This is in line with the research conducted by Safakli (2012) to measure the service quality of commercial banks in Northern Cyprus. However, this is contradicting with the findings of many other studies where banking customers allocated higher scores and weights to the empathy dimension (Devi and Ramburuth, 2012).

The above discussion illustrated some interesting facts. The respondents identified all the dimensions and assigned the weights as per their level of interest and importance. Since reliability, responsiveness and assurance are of highest importance for The Bank customers, The Bank should improve and maintain its services in order to ensure 100 % quality in terms of these dimensions. On the other hand, customers consider tangibles and empathy to be the least significant dimensions. However, due to the changing customer perceptions and increasing competition, The Bank should also ensure that they provide excellent quality to customers in terms of these dimensions. Table 2 summarizes the importance weights assigned by The Bank customers to all the five service quality dimensions of SERVQUAL.

**Table 2** Service quality dimensions in order of most important to least important for The Bank customers in Kosovo

Service quality dimension	Importance ranking
Responsiveness	25.34
Reliability	21.55
Assurance	18.96
Tangibles	17.06
Empathy	17.06

The other main objective of this research is to find out the current satisfaction levels of The Bank customers by the services provided by the bank. In order to accomplish this objective, the expectations and perceptions of customers for all the service quality dimensions are analyzed. Moreover, the SERVQUAL quantitative procedure is also applied to the dimensions to effectively understand the overall service quality.

A five point likert scale is used to measure the expectations an perception levels in which more points specify higher level of perceptions and expectations. Perception minus expectation score is calculated and according to Parasuraman *et al* (1985, p.30) the higher the score, the higher is perceived service quality which leads to customer satisfaction.

**Table 3** Gap score analysis for SERVQUAL dimensions

Dimension	Expectation	Perception	(P-E) Gap Score
Tangible	4.38	4.01	-0.36
Reliability	4.52	4.14	-0.38
Responsiveness	4.49	3.62	-0.86
Assurance	4.5	3.88	-0.62
Empathy	4.54	3.83	-0.71

Tables 3 shows that the expectations of The Bank customers exceeded their perceived level of services for almost all the dimensions. This shows that there exist gap scores for all the dimensions and the quality of services offered by The Bank to the customers in Kosovo. Parasuraman *et al* (1988, p.30) argues that generally the expectation levels of customers exceed their perceptions and this also implies that continuous improvements are necessary for service organizations. Attributes that reported widest negative gaps include ‘employees of excellent banks will give prompt service to customers followed by ‘employees of excellent banks will tell customers exactly when services will be performed and ‘excellent banks will have operating hours convenient to customers. Also, if we see the average gap scores of all the five dimensions, it can be observed that the highest gap score is for ‘responsiveness’ under which the above attributes exist. On the other hand, responsiveness was given the highest weight and has been considered as most important service quality dimension by The Bank customers. This shows that the The Bank did not meet

the requirements of the customers in terms of the highest weighted dimension. The third attribute with highest gap score is under the dimension, ‘empathy’. However, this dimension was rated among the least important attributes by the customers. Hence, there might not be much impact on the bank. As such, it is evident that the customers of The Bank in Kosovo are not completely satisfied with the services and there exist gap in their expectations and perceptions.

**Conclusion**

According to the primary findings of this research, responsiveness has been assigned highest weight among the other dimensions (25.34) by The Bank customers. Moreover, if we consider the expectation scores of customers, the average expectation score for responsiveness is among the top three highest scores i.e.(4.49). Also, the findings of this research are in line with the literature findings. Hence, it can be concluded that responsiveness is the top most service quality dimension for The Bank customers in Kosovo. Following the responsiveness dimension, reliability and assurance were assigned the highest weights among the other dimensions. This shows that The Bank customers expect their banking staff to be more responsive in providing services. Also, they expect to rely on The Bank for their banking transactions and also they want their banks to assure them the trust in providing quality services.

The second most important objectives of this research was to find out the current satisfaction levels of customers of The Bank by the services provided by the bank. The primary findings of this research suggest that the expectations of The Bank customers exceed than their perceptions in all the dimensions. Also, the gap score analysis shows that there exist gaps among all the service quality dimensions. As discussed in the previous chapter, there exist a wide negative gap score for responsiveness dimension. Apparently, responsiveness has been assigned the highest weight and as the most important service quality dimension by The Bank customers. This shows that the customers of The Bank are not satisfied with the most important service quality dimensions from their perspective. Also, there exist a widest gap score (-0.71) for the empathy dimension. Although, empathy has been ranked among the least important service quality dimensions, there might be some impact on the customers due to the gap in the dimension and changing customer preferences. Hence it is crucial for The Bank to be more empathetic towards the customers and understand their queries. Also, there is a negative gap scores for tangibles, reliability and assurance dimensions. This implies that the customers are not completely satisfied by the services provided by The Bank in Kosovo.

Since there is a negative gap scores among all the service quality dimensions, it is important for The Bank to improve the quality of its services among all the aspects. This is even more important considering the

increased competition among the banks and increasing demands of banking customers in Kosovo.

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