

MEASURING SERVICE QUALITY OF COMMERCIAL BANKS TOWARDS SMEs IN NORTHERN CYPRUS

Okan Veli ŞAFAKLI*

ABSTRACT

As a result of globalization and international competition, reduced profit margins made it difficult for companies whether they are in physical or service sector. Parallel to this, customer oriented production became the key of success for companies. In other words, it is not possible for companies not being able to meet consumer needs and wants to compete efficiently. Therefore, the measurement of service quality depends to what extent the customer expectations are met. In this respect, this study aims to measure service quality of commercial banks towards Small and Medium Sized Enterprises (SMEs) in Northern Cyprus using SERVQUAL model developed by Parasuraman, Zeithaml and Berry. As a brief summary of the study, commercial banks in Northern Cyprus have not met the service expectations of SMEs for all dimensions. Among the dimensions of service quality highest negative gap belongs to empathy. Furthermore, Relative importance (weights) of quality dimensions stated by SMEs is highest for reliability.

Keywords: Northern Cyprus, SME, SERVQUAL, Commercial Bank

INTRODUCTION

According to SME definition in European Union (EU) SMEs have less than 250 occupied persons while their turnover must be lower than 50 million Euros or their annual balance-sheet total must be lower than 43 million Euros. They are considered as an essential source of jobs, creating entrepreneurial spirit and innovation in the EU and thus crucial for

* Near East University, Department of Banking and Finance Nicosia – Northern Cyprus, Mersin 10 Turkey

Phone: 0392-2236464/277; Fax: 0392-2236464/270

E-mail: osafakli@neu.edu.tr

fostering competitiveness and employment (Europa, 2004). Such that, 25 million SMEs employ more than 100 million workers and represent two-third of the workforce in the private sector (Europa, 2005). Furthermore, SMEs constitute 99 percent of businesses in EU (Commission of the European Communities, 2005:1). When employment criterion unique to SMEs of EU is considered, similar table is observed in Northern Cyprus. For all the enterprises in Northern Cyprus, 7442 (95.3 %) are micro, 308 (3.96 %) are small and 57 (0.74 %) are medium sized (Şafaklı and Güray, 2005).

Although it varies form country to country most of the SMEs prefer to use bank based finance instead of alternative financial sources (European Commission, 2003: 19). Compared to other countries, Northern Cyprus is an unrecognized country as a result the SMEs access is limited to international financial resources, therefore they operate under heavy financial problems (Şafaklı, 2004). Consequently, services received from commercial banks are of utmost importance. In this respect, measurement of the service quality of banks towards SMEs and making recommendations accordingly are the focus of this study.

1. CONCEPTUAL ROOTS

Within the framework of the task of measuring service quality firstly basic concepts related to service and service quality will be explained. Even though a consensus is not reached regarding the common definition of service the following definitions largely overlap:

- Service being immaterial product produced to satisfy consumer needs (Kuriloff at al., 1993: 247) is carried out for someone else (Goetsch and Davis, 1998: 104).
- Not having material personality, inseparableness of production from consumption, variability, heterogeneity and flimsiness are characteristics that separate services from goods (Ghobadian at al., 1994: 44-46; Bergman and Klefsjö, 1994: 266).
- Services are activities or benefits provided to group which ends up with non-ownership. The production of service may or may not be related to materialized product (Rust vd., 1996: 7).
- Services were defined as: “Those economic activities that typically produce an intangible product such as education, entertainment, food and lodging, transportation, insurance, trade, government, financial, real estate, medical repair and maintenance like occupations” (Heizer and Render, 1999).

As it is understood from the definitions above there are two distinct constituents of service quality, technical and functional (Gronroos, 1984: 36-84). Many researchers argue that, given their frequent inability to judge technical quality of service functional service quality may be seen by the customer as the most important factor in a service transaction. On the other hand, much of the discussion about service quality measurement has revolved around the concept of dimensions of service quality where dimensions refer to a set of attributes which consumers use in evaluating the quality of service provided (Asubonteng at al., 1996: 62-81). Similarly, many of the definitions of service quality revolve around the identification and satisfaction of customer needs and requirements (Cronin and Taylor, 1992: 55-68; Parasuraman at al, 1988, 1985). Parasuraman *at al.* (1985) argue that service quality can be defined as the difference between predicted, or expected, service (customer expectations) and perceived service (customer perceptions). If expectations are greater than performance, then perceived quality is less than satisfactory and a service quality gap materializes. This does not necessarily mean that the service is of low quality but rather that customer expectations have not been met hence customer dissatisfaction occurs and opportunities arise for better meeting customer expectations.

SERVQUAL scale is a principal instrument in the services marketing literature for assessing quality (Parasuraman vd.,1991; Parasuraman vd., 1988). This instrument has been widely utilized by both managers (Parasuraman vd., 1991) and academics (Babakus and Boller, 1992; Carman, 1990) to assess customer perceptions of service quality for a variety of services (e.g. Banks, credit card companies, repair and maintenance companies). The results of the initial published application of the SERVQUAL instrument indicated five dimensions of service quality emerged across a variety of services. These dimensions include tangibles, reliability, responsiveness, assurance and empathy (Zeithaml at al, 1990: 176; Brensinger and Lambert, 1990; Crompton and MacKay, 1989). *Tangibles* are the physical evidence of service, *reliability* involves consistency of performance and dependability, *responsiveness* concerns the willingness or readiness of employees to provide services, *assurance* corresponds to the knowledge and courtesy of employees and their ability to inspire trust and confidence, and finally, *empathy* pertains to caring, individualized attention that a firm provides it customers (Lassar *at al.*, 2000:245-46).

In its original form, SERVQUAL contains 22 pairs Likert scale statements structured around five service quality dimensions in order to measure service quality (Cronin and Taylor, 1992). Each statement appears twice. One measures customer expectations of a particular service industry. The other measures the perceived level of service provided by an individual organization in that industry. The 22 pairs of statements are designed to fit into the five dimensions of service quality. A seven-point scale ranging from “strongly agree” (7) to “strongly disagree” (1) accompanies each statement. The “strongly agree” end of scale is designed to correlate with high expectations and high perceptions. Service quality occurs when expectations are met (or exceeded) and a service gap materializes if expectations are not met. The gap score for each statement is calculated as the perception score minus the expectation score. A positive gap score implies that expectation have been met or exceeded and a negative score implies that expectations are not being met. Gap scores can be analyzed for each individual statement and can be aggregated to give an overall gap score for each dimension (Parasuraman at al., 1988).

Researches conducted are of the sorts that support SERVQUAL scale. Common result of the relevant researches can be summarized as such that, perceived service quality is the result of comparison of service performance with customer expectations and the evaluation of service quality does not only depend on final output but also on the way of how the service is provided (Juran at al., 1988: 336).

2. METHODOLOGY

The main aim of the research is to measure service quality of commercial banks towards SMEs in Northern Cyprus using SERVQUAL model developed by Parasuraman, Zeithaml and Berry. The research applying Non-probability convenience sampling towards the owners/managers of SMES operating in versatile sectors at the township of Nicosia was conducted during the period of April-May 2006, completing 227 questionnaires.

The questionnaire used in the study is comprised of four parts. Part A contains demographic profile of respondents including gender, age group, marital status, education, relevant sector, type of commercial bank they usually work. Part B includes expectations of respondents using a seven-point Likert scale ranging from “strongly disagree=1” to “strongly

agree=7” to measure the 22 items. In part C respondents are required to rate explanations of five service quality dimensions withholding their identity to come to a total of 100. Similar to Part B, Part D contains perceptions of respondents to measure the service quality of commercial banks for 22 items. The data was analysed with the Statistical Package Program for Social Sciences (SPSS 12 for Windows). The basic analysis and tests utilized in the study include frequency and percentage analysis, “one-sample *t* test”, “independent-samples *t* tests”, “paired-samples *t* tests”, “One-Way ANOVA test” and “reliability analysis”.

3. DISCUSSIONS OF FINDINGS

3.1. Demographic Findings

The basic findings related to demographic characteristics of owners/managers of SMEs examined in the survey are given in Table 1.

Table 1: Demographic Findings

Factor	Category	Percentage
Gender	Male	61.7
	Female	38.3
Age group	25 and below	18.1
	26-35	33.0
	36-45	28.6
	46 and above	20.3
Marital status	Single	26.4
	Married	69.6
	Widow	4.0
Education	Primary school	6.6
	Secondary school	9.7
	High school	44.1
	University and Master degree	38.8
	Doctorate	0.9
Sector in which SMEs take place	Agriculture	1.3
	Industry	5.7
	Construction	8.4
	Trade-Tourism	38.8
	Transport-Communication	2.2
	Financial institutions	3.1
	Business and Personal Services	40.5
Commercial Bank SMEs usually work with	Turkish branch banks	23.3
	Local banks	68.3
	HSBC	8.4

As can be seen in the table, sample of SMEs assessing the service quality of commercial banks included more males (61.7 percent) than females, more high school education (44.1 percent) than other categories, and more married (69.6 percent) than other categories. Majority of them were between the ages 26-35 (33 percent), operates in the sector of business and personal services (40.5 percent), and usually work with local banks (68.3 percent).

3.2. SERVQUAL Scores of Customer (SMEs) Expectations and Perceptions

Respondents' expectations and perception of service quality took part in Table 2. As shown in the table SERVQUAL scores for all items bear negative signs meaning that expectations are greater than performance, then perceived quality is less than satisfactory and a service quality gap materializes. Even though SERVQUAL score for item 4 is negative, according to "paired samples *t* test" means of perception and expectation do not differ significantly at the $p < .05$ ($.958(p) > .05$). In other words, for 21 out of 22 items banks fall short of expectations.

Table 2: Average SERVQUAL Scores of Customer (SMEs) Expectations and Perceptions in Northern Cyprus

Dimension	Item	Perception	Expectation	SERVQUAL Score	Sig. (p)
Tangibles	1. Excellent banks have modern looking equipment	4.87	5.61	-.744	.000
	2. An excellent bank's physical facilities are visually appealing	5.04	5.62	-.577	.000
	3. An excellent bank's reception desk employees are neat in appearance	4.88	5.48	-.599	.000
	4. An excellent bank's credit cards, cheques and similar materials are visually appealing	5.56	5.57	-.013	.958
Reliability	5. When an excellent bank promises to do something by a certain time, it does so	5.57	6.06	-.489	.000
	6. When customers have problems employees in an excellent bank will be sympathetic and reassuring	5.4	6.02	-.621	.000
	7. An excellent bank performs the service right the first time	5.45	6.15	-.692	.000
	8. An excellent bank provides its services at the time it promises to do so	5.37	6.03	-.665	.000
	9. An excellent bank insists on error-free records	5.63	6.27	-.634	.000
Responsiveness	10. Employees in an excellent bank tell you exactly when the services will be performed	5.45	5.98	-.533	.000
	11. Employees in an excellent bank give you prompt services.	5.26	5.88	-.612	.000
	12. Employees in an excellent bank are always willing to help you	5.04	5.63	-.590	.000
	13. Employees in an excellent bank are never too busy to respond to customers' questions	5.07	5.50	-.427	.002
Assurance	14. Employees in an excellent bank insist confidence in customers	5.34	5.96	-.626	.000
	15. Employees in an excellent bank provide sufficient trust to customers placing confidence in employees in this respect.	5.50	6.10	-.599	.000

	16. Employees in an excellent bank always respect customers.	5.52	6.11	-.590	.000
	17. Employees in an excellent bank have necessary knowledge to answer customers' questions.	5.21	5.91	-.699	.000
Empathy	18. An excellent bank gives customer individual attention	4.87	5.73	-.859	.000
	19. An excellent bank has working hours suitable for all customers	4.47	5.19	-.718	.000
	20. An excellent bank has employees who give customer personal attention	4.45	5.38	-.930	.000
	21. An excellent bank has customer's best interest at heart	4.55	5.40	-.855	.000
	22. The employees of an excellent bank understand customer specific needs	4.53	5.35	-.824	.000

Table 3 shows SERVQUAL scores presented in line with five dimensions. These dimensions include tangibles, reliability, responsiveness, assurance and empathy. Based on the quality dimensions empathy has the highest negative SERVQUAL scores. In other words, compared with other factors, satisfactory level of emphatic behavior is lower.

Table 3: SERVQUAL Scores of Quality Dimensions

Dimension	N	SERVQUAL Scores (Average)	Sig. (p)	Relative Importance (weights) of Quality Dimensions Stated by SMEs (%)	Weighted SERVQUAL Score
Tangibles	3	-.64000	.007	16.77290	-0.10734
Reliability	5	-.62020	.000	27.62948	-0.17135
Responsiveness	4	-.54050	.001	20.18326	-0.10909
Assurance	4	-.62850	.000	20.27490	-0.12742
Empathy	5	-.83720	.000	15.13944	-0.12674
Total un-weighted SERVQUAL score		-.65328			
Total weighted SERVQUAL score					-0.64197

Respondents' rating of quality dimensions are also shown in Table 3. In regards to the quality improvement, the most important dimension to which highest rating (27.63 percent) is assigned is reliability. This dimension is followed by assurance and responsiveness respectively. In this respect, empathy having the highest negative SERVQUAL score is the least important dimension. When these relative importances of quality dimensions as weights are considered, highest negative SERVQUAL score passed from empathy to reliability. Furthermore, the difference between total weighted SERVQUAL score (-0.64197) and total un-weighted SERVQUAL score (-.65328) do not seem noteworthy.

3.3. Significance of Relationship between Demographic Variables and SERVQUAL Scores

By referring to demographic characteristics of owners/managers of SMEs in Table 1 and SERVQUAL scores in Table 2 “Independent-Samples t test” and “One-Way ANOVA test” has been conducted in order to examine the significance of relationships between them. Two hypotheses to be tested are given below as:

H1: There are no significant differences between gender and SERVQUAL scores

According to Levene's Test for Equality of Variances Equal variances assumed is used to check the significance of mean difference since all of the significance values for F is greater than .05 (Table 4). T-test for Equality of Means shows that the hypothesis above is rejected for items 5, 6, 7 and 17 because means for male and females differ significantly at the $p < .05$. As can be seen in Table 4 SERVQUAL scores of females are lower for these four items. This shows that meeting female expectations relative to those of male is more difficult. Furthermore, it should also be noted that 3 out of this 4 items belongs to quality dimension of reliability.

Table 4: t test for Equality of Gender SERVQUAL Scores

	Gender	N	Mean	Std. Deviation	Mean Difference	(Levene's Test for Equality of Variances) F Sig.		t-test for Equality of Means Sig. (2-tailed)
Item 5	Female	87	-.8161	1.99143	-.53038	.582	.446	.042
	Male	140	-.2857	1.83603				
Item 6	Female	87	-.9310	1.89732	-.50246	3.287	.071	.032
	Male	140	-.4286	1.58293				
Item 7	Female	87	-1.0000	1.72532	-.50000	.422	.517	.026
	Male	140	-.5000	1.57087				
Item 17	Female	87	-1.0115	2.06575	-.50790	3.410	.066	.042
	Male	139	-.5036	1.64790				

H2: There are no significant differences between “age groups, marital status, educational level, sectors SMEs take place and commercial bank SMEs usually work with” and SERVQUAL scores

One-Way ANOVA tests conducted for these demographic categories shows that means of SERVQUAL scores for respective categories do not differ significantly. Therefore, null hypotheses (H_2) are accepted.

3.4 Reliability of Model

A model is generally considered reliable if items used in it produce similar results regardless of whom administers them and regardless of which forms are used. Cronbach's Alpha is designed as a measure of internal consistency; that is, all items within the model should measure the same thing. Alpha is measured on the same scale as a Pearson r (correlation coefficient) and typically varies between 0 and 1. The closer the alpha is to 1.0, the greater the internal consistency of items in the model being assessed. The minimum acceptable value of Alpha for the reliability of the model is 0.5. Reliability of the research designed to measure service quality of commercial banks towards SMEs in Northern Cyprus can be separately calculated for the overall model or quality dimensions as shown in Table 5.

Table 5: Reliability of Overall Model and Quality Dimensions

Quality Dimensions	Cronbach's Alpha
Tangibles	.829
Reliability	.807
Responsiveness	.793
Assurance	.784
Empathy	.792
Overall Model reliability	.920

According to Alpha coefficients as a measure of reliability the following conclusive remarks can be made:

- Overall model reliability is increased to .920 from .908 if item 4 is deleted from the scale.
- The reliability of tangibles as quality dimension is increased to .829 from .646 if item 4 is deleted from the scale.
- The reliability of reliability and responsiveness as quality dimensions are .807 and .793 respectively.

- The reliability of empathy as quality dimension is increased to .792 from .775 if item 18 is deleted from the scale.

The results above show that both overall model and quality dimensions can be considered as to have high reliability.

4. CONCLUTIONS AND IMPLICATIONS

Today it is rather difficult to gain competitive power against the global dominance of liberal economy. In this competitive environment, success inevitably depends on following market policy of customer orientation. Therefore, firms that are not able to meet customer needs and expectations will be eventually driven away from market. From the point of view of commercial banks service quality should be functional rather than technical issue. SERVQUAL as the quality measurement instrument focusing customer expectations and perceptions are the most popular method used in service sector like banking. In this study, service quality of commercial banks towards SMEs in Northern Cyprus was measured by using the SERVQUAL method.

According to demographic findings of the research, majority of respondents as owners and/or managers of SMEs have intellectual capacity being either lyceum or university graduates and have their sectoral preferences focused on “Trade-Tourism” and “Business and Personal Services”. As the vital finding answering research question, the expectations of SMEs on service quality items except one item were higher than bank performance (perceptions). When quality dimensions are considered, the largest discrepancy between expectations and perceptions of SMEs was in terms of the “empathy” dimension. In other words, perceived quality is less than satisfactory and a service quality gap materializes. Hence, customer dissatisfaction occurs and opportunities of which “empathy” dimension comes first arise for better meeting customer expectations. Furthermore, highest and lowest relative importance assigned to quality dimensions belong to “reliability” and “empathy” respectively. However, when the weights assigned to quality dimensions are considered highest negative SERVQUAL score is carried by reliability.

When the relationship between demographic characteristics and SERVQUAL items are examined, gender differences proved to create significant results for 4 out of 22 items whereas SERVQUAL scores do not differentiate according to other demographic features. From a viewpoint of financial service marketer, research findings suggest that especially for reliability dimension commercial banks should be more female oriented than male.

As a conclusive remark it should be pointed out that even though SERVQUAL score can theoretically reach up to -6, the scores found as less than -1 show that commercial banks can easily fill the gap and meet service expectations of SMEs by only increasing their customer orientation.

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