

**DEVELOPING AND MANAGING
BANK SERVICE QUALITY (BSQ) INDEX**

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ABSTRACT

As the financial landscape evolves dramatically and competition intensifies in the light of current global financial crisis, banking institutions need to respond to the radical change in market needs, and continually reassess their strategies and alternatives. Delivering quality service to customers is seen to be crucial for success and survival in today's competitive banking environment and it is an important route to competitive advantage and corporate profitability. Thus, it is essential to analyze the means of measuring and evaluating the service quality provided by banking institutions as they adjust to the dynamic changes in the environment, and to develop a new measuring tool that forms the basis for capturing the authentic determinants of service quality within the banking sector. However, previous studies have produced scales that bear a resemblance to the generic measures of service quality, which may not be totally adequate to assess the perceived quality in the banking sector. Therefore, this study aims to design and validate a new measuring instrument of service quality, and ultimately to establish a national service quality index for the banking sector in Malaysia. The new **Bank Service Quality Index (BSQ Index)** is expected to be an important complement to traditional measures of economic performance, providing useful information to the banking institutions, shareholders, investors, government regulators, and customers. The proposed 29-item instrument has been empirically tested for unidimensionality, reliability and validity using both exploratory and confirmatory factor analysis. A factorial analysis suggests that service quality has three dimensions namely 'Systemization', 'Reliable Communication' and 'Responsiveness', and subsequent multiple regression analysis revealed that 'Systemization' is the most important service quality dimension within the banking

1.3 Scope and Limitation of Study

The study is designed to gauge the level of bank service quality from customers' perspective, identify the dimensions, develop a new index, and recommend strategies to improve the overall service quality. Thus, this study covers both the commercial and Islamic banks in Malaysia. Data had been collected for the period between July and December 2008, and stratified systematic sampling procedure was administered.

It is important that the findings of this empirical research be evaluated in the light of certain limitations since acknowledgement of these limitations could suggest new directions for future studies. The findings may undoubtedly raise more questions than answers, but how the service quality construct should be measured is arguably among the most important concerns in services marketing. However, in conducting this empirical research, attempt was made to minimise its limitations

The present study was conducted in a single service sector namely banking, thus some of the results particularly the dimensions of service quality may be specific to the particular service setting. Some researchers argue that the approach may potentially raise concerns about lack of generalisability, but interestingly such technique also eliminates problems associated with the effects of industry differences. Nevertheless, the objective of this empirical study is to develop a new measuring instrument of service quality specifically designed for the banking sector.

1.4 Significance of Study

Findings from this study will contribute further to the fast growing literature on service quality by advancing a new measuring instrument of service quality, which is specifically tailored for the banking sector in Malaysia. Such valid and reliable measuring scale would be a tool that banking institutions could use to improve service performance in the light of increased competition with the development of global financial services. Ultimately, the establishment of the national service quality index will promote quality and create a more competitive and market oriented banking industry in Malaysia.

The results from this study are crucial because previous studies have produced scales that bear a resemblance to the generic measures of service quality, which may not be totally adequate to assess the perceived quality in the banking sector, thus paving way for other researchers to do further investigation to improve service quality in the banking industry. Through the findings of this study, bank managers are able to identify critical dimensions of service quality in improving the bank's service quality performance and subsequently create competitive advantage.