



Income Level of the Consumer and Service

Ms. H.M.R.P. Herath* Er. S. Rajaram**

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Abstract

The banking sector in Sri Lanka grew rapidly in the recent years. Services sector accounts 56.2% of Gross Domestic Product in Sri Lankan economy which is the highest in all sectors where as the financial services which includes banking industry contribute 9.7% to total Gross Domestic Product (Central bank Report 2006). Further in Sri Lanka, financial system of the country mainly depends on banking system because banking sector represents a share of 70.8% of total financial system of the economy. The rapidly changing and highly competitive environment which banks are forced to operate within are pushing them to rethink about their attitude towards customer satisfaction and optimization of service quality.

With this background this study is aimed at identifying the significance of the income level of the consumers' on the evaluation of service quality in the retail commercial banking industry of Sri Lanka. Further, to identify whether there is any difference based on the level of income of the consumers on evaluation of service quality of the banks of which they are dealing with. A sample of 150 consumers was selected through stratified random sampling technique. The scope of the study was retail consumers of private and public commercial banks situated in the Gampaha district, who have been dealing with those particular banks more than two years. The retail consumers who are maintaining savings accounts, fixed deposit accounts and current accounts were considered proportionately in drawing the sample elements. Survey method used to gather primary data and it was developed on SERVQUAL model of service quality. The gathered data were analyzed using ANOVA with Duncan Multiple Range Test and findings showed that there are slight differences among the consumer groups based on their income levels in terms of evaluation of service quality provided by the banks.

Keywords : Service Quality, Retail Consumers, Banking industry, Income Level

1. Introduction

Deregulation of the banking sector has speed up the competition between banks and expanded the industry to greater extent and also the entrance of foreign banks to Sri Lankan market intensify the competition since the competitive edge that they are having with their huge asset base and advanced technology. Therefore banks need themselves to differentiate from other institutes. But being differentiated is not that easy for banks since their core business is to sell a service. Products can be differentiated easily with its features where as it is difficult with services due to its intangible nature. The only way of differentiating services is tangibilizing the service through improving the quality of the service. Therefore, due to the undifferentiated nature of money and other financial services, banks are now heavily rely on improving quality of service to get the competitive edge.

Across all service industries, the issue of service quality remains a critical one as businesses strive to maintain a comparative advantage in the marketplace (Stafford, 1996). Because financial services, particularly banks, compete in the marketplace with generally undifferentiated products, hence service quality becomes a primary competitive weapon (Stafford, 1996). Banks that excel in quality service can have a

*Lecturer, Department of Marketing Management, Faculty of Commerce and Management studies, University of Kelaniya, Srilanka

**Senior Lecturer/MBA, Kalasalingam University, Sivakasi, India

distinct marketing edge since improved levels of service quality are related to higher revenues, increased cross-sell ratios, higher customer retention (Bennett and Higgins, 1988), and expanded market share (Bowen and Hedges, 1993). Bowen and Hedges (1993) noted that the importance of various quality improvements differs among customer segments. It is particularly important to focus first on those customers who are most valuable to the bank. One possible method of determining those valuable customers is by utilizing customer demographics (Bowen and Hedges, 1993).

Given these significant findings in the financial services industry, it is important to understand specifically how service quality is evaluated by the customer. Moreover, it is critical to determine which elements of service quality are more important to different customers.

Demographics continue to be one of the most popular and well-accepted bases for segmenting markets and customers (cf. Belch and Belch, 1993; Kotler and Armstrong, 1991). By specifically identifying the key demographics of one's target market, a basic profile of the targeted customer emerges. Even if other types of segmentation variables are used (e.g. behavioral, psychographic) a marketer must know and understand demographics to assess the size, reach and efficiency of the market (Kotler and Armstrong, 1991).

Therefore it can be said that there is an impact from the demographic variables of the consumers on the way that they perceive the service quality. Further, this study is addressing the research gap of unavailability of literature with respect to the consumer demographics and service quality in the Sri Lankan context. Hence with this background it is worthwhile to the bankers to identify the differences in the perception of service quality in terms of different demographic characteristics of the consumers.

2. Research Problem

The study mainly focuses only on the retail consumers of the commercial banks within the local context. It includes all the commercial banks of the private sector local banks and public sector banks. And also the researcher evaluates how the level of service quality varies in terms of the level of income of the consumers. The study is done taking the bank branches located in the Gampaha District only. Further the study includes consumers who have been dealing with the bank for more than two years, who are maintaining current accounts, fixed deposit accounts and savings accounts in the above mentioned banks of the Gampaha district. Though there are several types of factors which are affecting on consumer behaviour such as cultural factors, social factors and psychological factors, this study focusing only on the income level of the consumer which is a demographic factor.

3. Literature Review

The credit for heralding the service quality research goes to Parasuraman, Zeithaml and Berry (Parasuraman et al., 1985, 1988; Zeithaml et al., 1985, 1990). The authors, based on qualitative research, formulated a measure of service quality derived from data on a number of services, instead

of counting on earlier dimensions of goods quality in the manufacturing sector. The initial results, based on some focus group endings, yielded 10 dimensions of service quality that included tangibles, reliability, responsiveness, competence, courtesy, credibility, security, access, communication and understanding the customer. Further empirical scrutiny (Parasuraman et al., 1988) resulted in a 22-item scale, called "SERVQUAL" which measures service quality based on dimensions, viz. tangibles, reliability, responsiveness, assurance and empathy. The entire approach was formulated on the tenet that customers entertain expectations of performances on the service dimensions, observe performance and later form performance perceptions. The authors described service quality the degree of discrepancy between customers' normative expectations for the service and their perceptions of the service performance. In their empirical work, Cronin and Taylor (1992) controverted the framework of Parasuraman et al. (1988) with respect to conceptualization and measurement of service quality, and propounded a performance-based measure of service quality called "SERVPERF" by illustrating that service quality is a form of consumer attitude. They argued that the performance-based measure was an enhanced means of measuring the service quality construct. In another empirical work, Teas (1993) investigated conceptual and operational issues associated with a "perceptions-minus-expectations ($P \pm E$)" service quality model. The author developed alternative models of perceived service quality based on evaluated performance (EP) and normated quality (NQ). It was concluded that the EP model could overcome some of the problems associated with the $P \pm E$ gap conceptualization of service quality. Parasuraman et al. (1994) responded to the concerns of Cronin and Taylor (1992) and Teas (1993) by demonstrating that the validity and alleged severity of many of those concerns were questionable. Parasuraman et al. (1994) elaborated that though their approach for conceptualizing service quality could and should be revised, relinquishing it altogether in preference of the alternate approaches proclaimed by Cronin and Taylor and Teas did not seem warranted. This triggered an interesting controversy in service quality research. In another empirical work, Parasuraman et al. (1994) revamped SERVQUAL's structure to embody not only the discordance between perceived service and desired service (labeled as measure of service superiority, or MSS), but also the discrepancy between perceived service and adequate service (labeled as measure of service adequacy, or MSA). Several other works have also criticized the operationalization, conceptualization, measurement and applications of SERVQUAL across different industrial settings. (G. S. Sureshchandar, Chandrasekharan Rajendran & T. J. Kamalanabhan, 2001).

A topic of particular interest in service quality research is the issue of measurement. The actual quality of service is difficult to define and measure (Gavin 1983; Parasuraman et al. 1988; Brown and Swartz 1989). However, researchers have reached a consensus that service quality should be defined and measured from the customer's perspective. The most widely accepted definition of perceived service quality is that it represents the discrepancy between customers' expectations and their perceptions of the service performance (Lewis and

Booms 1983; Gronroos 1984; Parasuraman et al. 1988). There has been a debate regarding the inclusion of expectations in the measurement of service quality (Teas 1993, 1994; Cronin and Taylor 1994; Parasuraman et al. 1994). While Cronin and Taylor (1994) claimed that the perceived performance measure possesses a high predictive ability, Parasuraman et al. (1994) assert that the expectation measures can assist management in identifying those areas which require immediate attention. However, Parasuraman et al. (1994) concur that if the primary purpose of measuring perceived service quality is to explain the variance on some dependent construct, then a performance-based measure is appropriate. (Tam, 2004) Parasuraman et al, (1994) defined service quality in a three-column format: minimum service level (would expectations), desired service level (should expectations), and perceived performance. (Sachdev, Verma, 2004) There is a growing acceptance among researchers that service quality can be tied to perceptions of service performance (Gronroos 1993; Dabholkar 1993). The "expectation/performance" conceptualization of service quality led Parasuraman, Zeithaml, and Berry to develop the SERVQUAL approach for measuring service quality in 1988. This method assesses both the consumer's service expectations and perceptions of the provider's performance. Positioned as a generic method applicable to a wide range of service industries, The service quality defined in the SERVQUAL model determines the gap between customers' expectations and perceptions. Namely, $SQ = P - E$, where SQ is denoted as service quality, and P and E are denoted as customers' perceptions and expectations, respectively. Respondents, therefore, would have to complete all attributes based on service expectations, followed by a second set of the same attributes, based on their perceptions of actual service received. As a result, completing the survey could seem rather onerous. Thus, it has been suggested (Cunningham, et al., 2002) that measuring service quality based only on the perceptions of service performance would suffice, as in the so called the SERVPERF model: namely, $SQ = P$. However, the study of Robledo (2001) indicated that the SERVPERF was not an efficient measurement scale, in terms of validity and reliability. In his study, an alternative scale was proposed, called the SERVPEX, to measure service quality. The five SERVQUAL dimensions are a concise representation of the core criteria that customers employ in evaluating service quality. As such it is reasonable to speculate that consumers would consider all five criteria to be quite important (Parasuraman, 1988) It was developed to measure perceived service quality as the key output variable and in its finalized form it has 22 pairs of Likert-type scales. The first 22 items are designed to measure customer expectations of service for a particular service industry expectations, while the remaining 22 are intended to measure the perceived level of service provided by a particular service organization (perceptions). Service quality is then measured by calculating the difference in scores between the corresponding items (i.e. perceptions minus expectations). However, it is limited to current and past customers, because respondents need to have some knowledge and experience of the organization in order to be able to complete the scale.

Previous research has shown that demographic variables are related to service Expectations quality expectations (Gagliano and Hathcote, 1994; Thompson and Kaminski, 1993; Webster,

1989). More specifically, Thompson and Kaminski (1993) found a significant relationship between age and dimensions of service quality, while Gagliano and Hathcote (1994) reported significant relationships between income and service quality expectations. Further, Webster (1989) found that age, gender and income were significantly related to service quality expectations for professional services. Income segmentation has been a popular demographic variable utilized by a myriad of product and service marketers. Income segmentation does not automatically assume targeting those earning higher salaries.

4. Methodology

In this study it measures the relationship between the service quality dimensions and the level of perceived service quality considering the differences of income levels of the consumers by which it explains the existing situation rather going to examine cause and effect situation. Therefore the design of the research falls under the research design of descriptive research Both primary and secondary data were used. Secondary data were collected through text books and previous research articles. Primary data were collected on survey method based on a structured questionnaire developed on SERVQUAL Model and variables were operationalized on the basis of SERVQUAL instrument. Four income categories were used in the questionnaire such as, below 25,000, above 25,000 and below 50,000, above 50,001 and below 75,000 and above 75,000. Stratified Random Sampling technique was used to select the sample elements and gathered data analyzed using one way ANOVA. The questionnaire was circulated among 150 consumers who have been already dealing with the bank more than two years. The sample elements were selected in the following manner.

Table 4.1 - Sample Profile

Ownership		No. of Respondents
Private Sector Local Banks		90
Savings Accounts Holders	45	
Fixed Account Holders	30	
Current Account Holders	15	
Public Sector Banks		60
Savings Accounts Holders	30	
Fixed Account Holders	22	
Current Account Holders	08	
Total Respondents		150

4.1 Reliability and Validity of Instruments

Though the SERVQUAL is an internationally tested instrument still the testing the reliability is needed since it is going to apply to different nature of context. And also it has to be checked whether language of questionnaire does any impact on the reliability of the measurements. "At times, we may also have to adapt an established measure to suit the setting. For example, a scale that is Used to measure job

performance, job characteristics, or job satisfaction in the manufacturing industry may have to be modified slightly to suit a utility company or a health care organization. The work environment in each case is different and the wordings in the instrument may have to be suitably adapted" (Research Methods for Business, Sekaran Uma, 4th Edition, pp 208).

Since the data was generated using scaled responses reliability of the questionnaire was measured through Cronbach's alpha to ensure the internal consistency of the instrument. Cronbach's Alpha was measured for all the dimensions of the service quality of both expected and perceived. And also the reliability of the expected service quality part of the questionnaire and the perceived service quality part of the questionnaire was measured separately. All the scores of Cronbach's Alpha for all dimensions were over 0.7 as shown in the below table. Scales that receive alpha score over 0.7 are considered to be reliable (Malhotra 2005).

Table 4.2 : Reliability Statistics

Variables	Cronbach's Alpha	No. of Items
Expected Service Quality-Tangibles	.797	4
Expected Service Quality-Reliability	.858	5
Expected Service Quality-Responsiveness	.808	4
Expected Service Quality-Assurance	.816	4
Expected Service Quality-Empathy	.836	5
Perceived Service Quality-Tangibles	.836	4
Perceived Service Quality-Reliability	.877	5
Perceived Service Quality-Responsiveness	.880	4
Perceived Service Quality-Assurance	.775	4
Perceived Service Quality-Empathy	.900	5
Expected Service Quality	.947	22
Perceived Service Quality	.956	22

Source : Results of Data Analysis

Convergent Validity of the questionnaire was measured through Paired Sample Correlation. Convergent validity was measured in the two sections of questionnaire separately. In

the sections of expected service quality and the perceived service quality, it was measured the degree to which the dimensions of service quality and the expected service quality and the perceived service quality correlate to each other. Convergent validity is established when, the scores obtained with two different instruments measuring the same concept are highly correlated (Sekaraku Uma, 2006).

Table 4.3 : Paired Samples Correlations: Expected Service Quality

	N	Correlation	Sig.
Pair 1 Mean Expected Tangibles & Expected Service Quality	150	.771	.000
Pair 2 Mean Expected Reliability & Expected Service Quality	150	.905	.000
Pair 3 Mean Expected Responsiveness & Expected Service Quality	150	.907	.000
Pair 4 Mean Expected Assurance & Expected Service Quality	150	.885	.000
Pair 5 Mean Expected Empathy & Expected Service Quality	150	.863	.000

Source : Results of Data Analysis

Table 4.3 represents the coefficients of, in between all the dimensions which are measuring the variable of expected service quality and the variable of expected service quality as a one variable. They are showing a higher correlation. It says that in between the five dimensions of expected service quality and the expected service quality, convergent validity is there.

Table 4.4 shows the coefficients of, in between the dimensions of perceived service quality and the perceived service quality variable. Since it shows higher correlations among the pairs it can be said that convergent validity is there in the instrument of data collection.

4.2 Conceptual Model

Based on the reviewed literature the researcher was able to identify dimensions of service quality of reliability, tangibles, responsiveness, assurance and empathy as per the SERVQUAL Model and those dimensions are using as the base for measure the service quality of the banks. Further it is evident through the literature that the relationship between the

independent variables of dimensions of service quality and the dependent variable of service quality is moderated through the impact of the demographic variables of the consumer such as gender, age, income level, and education level, geographic area of living and social class. But, the researcher is focusing only on the income level of the consumers under this study. Figure 4.1 illustrates the relationship among these variables.

Table 4.4 : Paired Samples Correlations: Perceived Service Quality

	N	Correlation	Sig.
Pair 1 Mean Perceived Tangible & Perceived Service quality	150	.800	.000
Pair 2 Mean Perceived Reliability & Perceived Service quality	150	.899	.000
Pair 3 Mean Perceived Responsiveness & Perceived Service quality	150	.913	.000
Pair 4 Mean Perceived Assurance & Perceived Service quality	150	.853	.000
Pair 5 Mean Perceived Empathy & Perceived Service quality	150	.898	.000

4.3 Hypotheses

H1: Consumer evaluation on service quality varies in terms of income level of the consumer.

H2: The importance assigned to the each dimension of service quality varies in terms of income level of the consumer.

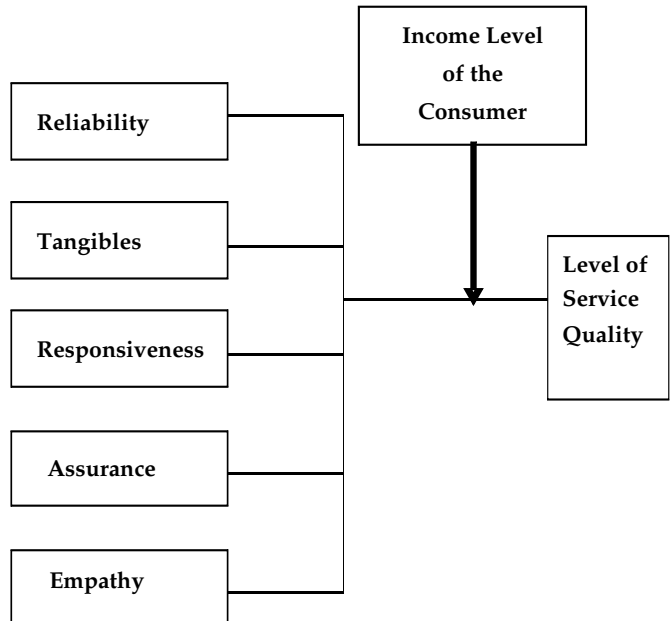
4.4 Data Analysis

To test the hypotheses developed, ANOVA was used through the SPSS package.

H1: Consumer evaluation on service quality varies in terms of income level of the consumer

The mean values of service quality obtained by subtracting the expectations by perceptions were related with income levels of the consumers and table 4.5 indicates the results of the data analysis obtained using ANOVA. There by it can be said that the hypothesis of consumer evaluation on service quality varies in terms of income level of the consumer can not be accepted since it is not statistically significant, because table value of 0.080 is greater than the P value of 0.05.

Fig. 4.1 Conceptual Framework



Source : Researcher’s own construction, based on SERVQUAL Model

Table 4.5 : ANOVA Table- Service Quality and Income Level of the Consumer

	Sum of Squares	df	Mean Square	F	Sig.
Service Quality Between Groups (Combined)	6.946	3	2.315	2.301	.080
*Income Level Within Groups Total	146.926	146	1.006		
	153.872	149			

H2: The importance assigned to the each dimension of service quality varies in terms of income level of the consumer.

With in the frame work of this hypothesis another five hypotheses can be built up on the basis of each dimension of service quality. Again using ANOVA the status of these hypotheses was tested. For that the mean values of service quality in overall was related with the income level of the consumers. According to the table 4.6 the acceptability or the rejection of following mentioned hypotheses can be tested.

- The importance assigned to the tangibles of service quality varies in terms of the income level of the consumer- This hypothesis is rejected since the table value of 0.440 is greater than the value of 0.055.
- The importance assigned to the reliability of service quality varies in terms of the income level of the consumer- This one is also rejected because the table value of 0.114 is greater than the value of 0.05 which is the limit of confidence interval.
- The importance assigned to the responsiveness of service quality varies in terms of the income level of the consumer- It is rejected because the value in the table of 0.061 is greater than 0.05.
- The importance assigned to the assurance of service quality varies in terms of the income level of the consumer- It is rejected because the value in the table of

0.224 is greater than 0.05.

- The importance assigned to the empathy of service quality varies in terms of the income level of the consumer- This

hypothesis is accepted since the value of 0.038 which indicates the table is lower than the value of 0.05.

Table 4.6 : ANOVA Table- Service Quality and Income Level of the Consumer

		Sum of Squares	df	Mean Square	F	Sig.
Service Quality Tangible * Income Level	Between Groups	3.284	3	1.095	.906	.440
	Within Groups	176.435	146	1.208		
	Total	179.719	149			
Service Quality Reliability * Income Level	Between Groups	8.769	3	2.923	2.015	.114
	Within Groups	211.770	146	1.450		
	Total	220.539	149			
Service Quality Responsiveness * Income Level	Between Groups	9.615	3	3.205	2.508	.061
	Within Groups	186.594	146	1.278		
	Total	196.208	149			
Service Quality Assurance * Income Level	Between Groups	5.115	3	1.705	1.474	.224
	Within Groups	168.823	146	1.156		
	Total	173.937	149			
Service Quality Empathy * Income Level	Between Groups	14.426	3	4.809	2.887	.038
	Within Groups	243.136	146	1.665		
	Total	257.562	149			

Since it is shown through the data analysis that service quality in the aspect of empathy is varied in terms of the income level of the consumer further to identify in which income categories these differences are lie exactly, Duncan Multiple Range Test was performed and following table 4.7 shows the result. According to that the consumers who fall under income categories of below 25,000 and from 50,001 to 75,000 are possessing same levels of service quality evaluations where as other categories posses some other different levels of service quality.

Table 4.7 : ANOVA Table- Service Quality and Income Level of the Consumer

Service Quality Empathy

Duncan^{ab}

Income Level	N	Subset for alpha = .05	
		1	2
25000-50000	60	-1.8967	
Below 25000	71	-1.4479	-1.4479
50001-75000	15	-1.3067	-1.3067
Above 75000	4		-.3500
Sig.		.305	.055

Means for groups in homogeneous subsets are displayed.

- Uses Harmonic Mean Sample Size = 11.514.
- The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

5. Discussion of Findings

Though the results of the previous studies shave shown that income level of the consumers is a significant discriminator of service quality, the rejection of the first hypothesis of that

consumer evaluation on service quality varies in terms of income level of the consumer, indicates that with respect to the Sri Lankan context that is not a significant factor in evaluation of service quality. Further it says that based on the income level of the consumer he or she does not expect different levels of service quality from the banks. But when it comes to the second hypothesis of that the importance assigned to the each dimension of service quality varies in terms of income level of the consumer, in respect of dimension of empathy of service quality the hypothesis has been accepted based on the results of the data analysis. It says that the levels of empathy that the customers are expecting from their banks are depending on different income levels of the consumers. The results of the Duncan Multiple Range test results showed that two consumer groups (below 25,000 and 50,001-75,000) based on the income level holds similar service quality evaluations and also it showed that the income group of 25,000-50,000 holds a higher value of service quality evaluation. Therefore when the banks are dealing with consumers the level of attention would be given to the consumers based on their income level, will be varied. Otherwise the consumers will get dissatisfied which brings several bad consequences to their reputation. Since other four hypotheses related to rest of the dimensions of service quality were rejected, it is not needed to the banks treat them separately on the dimensions of tangibles, reliability, responsiveness and assurance. But, since the expected service quality is high with respect to all the dimensions they should be maintained at a higher level with regard to the consumers who fall under all categories of income.

6. Conclusion

Based on the results of the study it can be concluded that income level of the consumer does not exert a significant impact on evaluations of service quality of the consumers. Further the findings imply that regardless of the level of income level of the consumer the banks should provide a higher level of service for their customers which indirectly says that nowadays it is difficult to satisfy customers easily, since their expectations are lie at a higher level. But the level of attention expect by the consumers based on their level income is different which indicates through the values of empathy dimension of service quality. Because some consumer groups give priori importance to dimension of empathy where as some other groups are not. Anyway in segmentation of markets by the banks, the level of income does not play a significant role and therefore this not a good demographic variable to segment the markets.

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