

# UDC 336.717.15(497.7) ASSESSMENT OF THE SERVICE QUALITY IN MACEDONIA'S BANKING SECTOR

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## Abstract

*Service quality and costumers satisfaction have been widely described as related constructs in the literature. Some of the scholars have even characterized them as a single construct. In high involvement industries, like banking, the quality of the service appears to be a prerequisite for success.*

*In cognizance to the relative paucity of studies on the banking industry in Macedonia, in the context of service quality, this paper attempts to contribute in this regard by focusing on the service quality issues in Macedonia banking sector. This was accomplished by applying the service quality measures developed by Parasurman et al(1985) .The current study focuses on retail costumers, thus, generalization to the corporate group should be done with caution.*

**Key words:** *service quality, customer satisfaction, banking industry*

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## I. Introduction

Intensifying competition and rapid deregulation are significantly changing the banking environment throughout the world. Within this rapidly changing environment, banks are consistently seeking for profitable ways to differentiate themselves. To accomplish this, most of the banks are now turning their attention to customer satisfaction and service quality.

The objective of the research was threefold- (1) to evaluate the applicability of the five-dimensional service quality construct on measuring customer satisfaction (2) to investigate the service quality impact on price awareness (3) to determine how price awareness affects customer satisfaction.

This paper is divided into six sections. The first section presents brief literature review of the definition and measurement of service quality, and the academic findings on price. The second section deals with the questions of the research. The subsequent sections discuss the data collection, descriptive analyzes and purification procedures. (Section 3 to section 6).The final section proceeds with some conclusive remarks regarding the study, limitations, implications and suggestions for further research.

## II. Literature review

### 2.1 Service Quality

Traditionally, service quality has been given paramount attention in the banking sector, since they were offering products which are difficult to differentiate, thus, placing great value on customer relationship.. (Angur et al 1999; Allred & Addams.H,2000) As Soteriou. A & Zenios. S (1997) declared "customer-perceived quality as the driver of retail banking in the 1990s"(,p 5)" In today's rapidly changing environment, factors such as deregulation and increased competition have contributed even further to the importance of customer satisfaction and service quality for all banking institutions.

Great attention has been dedicated to the service quality concept and its impact on various aspects, most remarkably its apparent relationship with customer satisfaction. (Parasuraman,Berry, & Zeithaml,1985; Iacobucci et al,1995,) The vast majority of literature describes this concept as a matter of attitude, perception and subjectivity. As Zeichmal (1988) defines "it is the consumer's judgment about a product's overall excellence and superiority" (p.3). Thus, academics have been referring to this concept as a comparative function of customer expectations and perceptions of the actual service performance. (Parasuraman et al, 1994 p.146) When expectations exceed the actual service performance, there is an unsatisfactory perception of service quality. Customer satisfaction has been defined in similar terms "a function of the discrepancy between a consumer's prior expectations and his or her perception regarding the purchase"(Iacobucci et al p.278,). The customer satisfaction literature, describes this model as "Disconfirmation Paradigm", whereas writings on service quality, have been referring to this model as "Gap Model".

On the other hand, there have been some researchers arguing that the analogous conceptualization of quality and satisfaction is not appropriate.(Parasuraman et al<sup>12</sup>,,1985 p.16; Iacobucci et al) In addition, Iacobucci et al (1995) founded that there other service attributes that affect customer satisfaction, other than service quality: timeliness and price. (p.293)

Various service quality' measurement approaches have been developed over the years, which are still subject to controversy. For instance, the SERQUAL model developed by Parasuraman Zeithaml and Berry (1985), has been exposed to several criticisms regarding its validity (Cronin and Tylor 1994, Bahia & Nentel, 2000) For example, Cronin and Tylor(1992,1994) argued that measuring only performance is more suitable approach (SERVPREF) Nevertheless, the SERVQUAL model has been extensively adopted by researches, making its multidimensional approach widely supported throughout the literature. Thus, it has been accepted that customers evaluate service quality in terms of both: the process and the outcome of service received. (Allred.A & Addams.H,2000. pg 201). The model is a five dimensional construct of perceived service quality, with 22 items developed to measure the degree of discrepancy between customer's expectations and perceptions.

- Tangibles
- Reliability
- Responsiveness
- Assurance
- Empathy

In this sense, perceived quality is measured as a gap between expectation and the actual performance. The measurement is designed as a continuum ranging from best quality to totally unacceptable quality (Sachdev.S & Verma.H,2004,p.98).

### 2.2 Price awareness

Limited numbers of researches have been examining the importance of price awareness.

In a study conducted by Zeichmal.V,(1988), it was found that price awareness is of greater importance for services, durable goods and packaged goods, and that the level of price awareness tends to be greater for female, married, home-working woman.(p.11)

Furthermore, distinction between objective<sup>13</sup> and perceived price.<sup>14</sup> Was made in the literature.(Jacoby and Olson ,1977, cited in Zaithmal.V 1988) In addition, they suggest that people do not always remember the actual price, rather, they may encode price in their own-justified manner. However, for a consumer to have accurate internal reference price, customer attention, awareness and knowledge of prices appear to be considerably important. (Zeithmal.V ,1988) It has been argued that priming affects both categorization and judgment and that only judgment about price is affected by priming effects.(Herr.P,1989. p.69)

Lichtenstian et al(1988) suggested that price acceptability is influenced directly by price consciousness and product involvement, or indirectly through the formation of price-quality inferences.(p.249) Both, priming and price acceptability emphasize the importance of knowledge structures in memory and judgment. (Kangis. P and Passa.V,1997 p.106) In many cases, "customers may decide to forgo reconsideration or even first consideration... and simply retrieve the attitude they formed during the first processing..."(Charttopadhyay. A and Alba. J, 1988 p.5)

All of these concepts are correlated, and should be taken into consideration when evaluating the effects of price.

### 2.3 Price as indication of quality

Considerable research has been dedicated to the relationship between price and quality.

(Zeithmal, 1988 and Herr.P,1989). However, scholars suggested that this relationship is: nonlinear in nature (Peterson,1970 p.526) , personal construct (Sharpo,1973 p.289) and usually weak (Zeithmal,1988 p.11) Other studies have shown that price is used as quality cue to a greater degree when brands are unfamiliar than when they are familiar (Zeitmal 1988 p.10)

## 3. Research question

The aim of the project is to establish the extent to which (a) service quality affects customer satisfaction in Republic of Macedonia's banking sector (b) the influence of the five dimensional service quality construct on price awareness (c) to determine the relationship between price awareness and customer satisfaction.

Hypothesis 1: There is a positive relationship between any of the service quality dimensions and customer satisfaction.

The research hypotheses were stated as follow:

- H 1 (0) Tangibility positively affects customer satisfaction
- H 1 (1) Reliability positively affects customer satisfaction
- H 1(2) Responsiveness positively affects customer satisfaction
- H 1(3) Accuracy positively affects customer satisfaction
- H 1(4) Empathy positively affects customer satisfaction

If any of the research hypothesis is supported, that hypothesis 1 will be accepted. This is based on foundation that service quality can be considered as a one-dimensional construct(Cronin and Taylor, 1994) and on the premise that not all service quality dimensions are important to customers(Verma.H and Sachdev. S,p. 105) We expect Hypothesis 1 to be acceptable , based on the literature , where the two constructs have been widely accepted to be interrelated . (Parasurman et al 1988.pg. 16)

Hypothesis 2: Service quality will impact the awareness that customers have regarding the bank charges.

The hypothesis is expected, based on the literature indication that customers refer to price as a cue of quality

13) The actual price of a product

14) The encoded price of the consumer

Hypothesis 3: Increased level of price awareness will positively affect customer satisfaction.

The hypothesis is expected, based on the premise that informed customers are more satisfied with the service of the bank. (Passa and Kangis,1997,pg.117)

#### **4. Methodology**

The collection of the original data was conducted among the costumers of the two largest and well-known banks in the area of Skopje, Macedonia. The data for the study was obtained trough a questionnaire. The survey procedure was divided among the two researchers, each distributing 50 questionnaires in two different banks.(total of 100 questionnaires) among the costumers of "Komerzialna Banka" , which was one of the selected banks and the costumers of "Tutunska banka."

The questionnaire consisted of three sections, obtaining data on personal information, customer evaluation of the five quality dimensions and overall satisfaction.

The first section of the questionnaire consisted of demographic questions, determining consumer's age, sex, marital status, education and income.

The second section of questionnaire, was measuring service quality, identified by the five dimensional variables. It was decided, evaluations to be based on SERVQUAL model (Parasuraman et al. 1985), as a concise multiple scale with good reliability and validity, measuring perceived service quality. For clear and simple measurement, the instrument was shortened from 22 to 20 attributes. Each item of service quality was measured on a seven-point Likert scale." A seven-point scale ranging from "strongly agree" (7) to "Strongly Disagree" (1), with no verbal labels for scale points 2 trough 6, accompanied each statement. "(Parasuraman et al,1985, p.17)

This scale evaluated five dimensions of quality: Tangibility, Reliability, Responsiveness, Assurance and Empathy. The items concerning the variable of tangibility were adjudged by the features such as appearance of the personal, physical facilities and tidiness of the branch. Reliability was defined by the ability of the bank to perform its statements accurately, and its on-time performance of service. Responsiveness was determined by the willingness of personnel to help customers, to organize queries and to prompt service. Assurance variable was defined by the knowledge and courtesy of employees and adequacy and of explanations of services offered. The empathy variable represented the individualized attention the bank's to its customers, the convenience of opening hours and the provision of information on interest rate charges.

In the last section, respondents were asked more generally to indicate their overall level of satisfaction with their bank, as well as their price awareness before receiving the service.

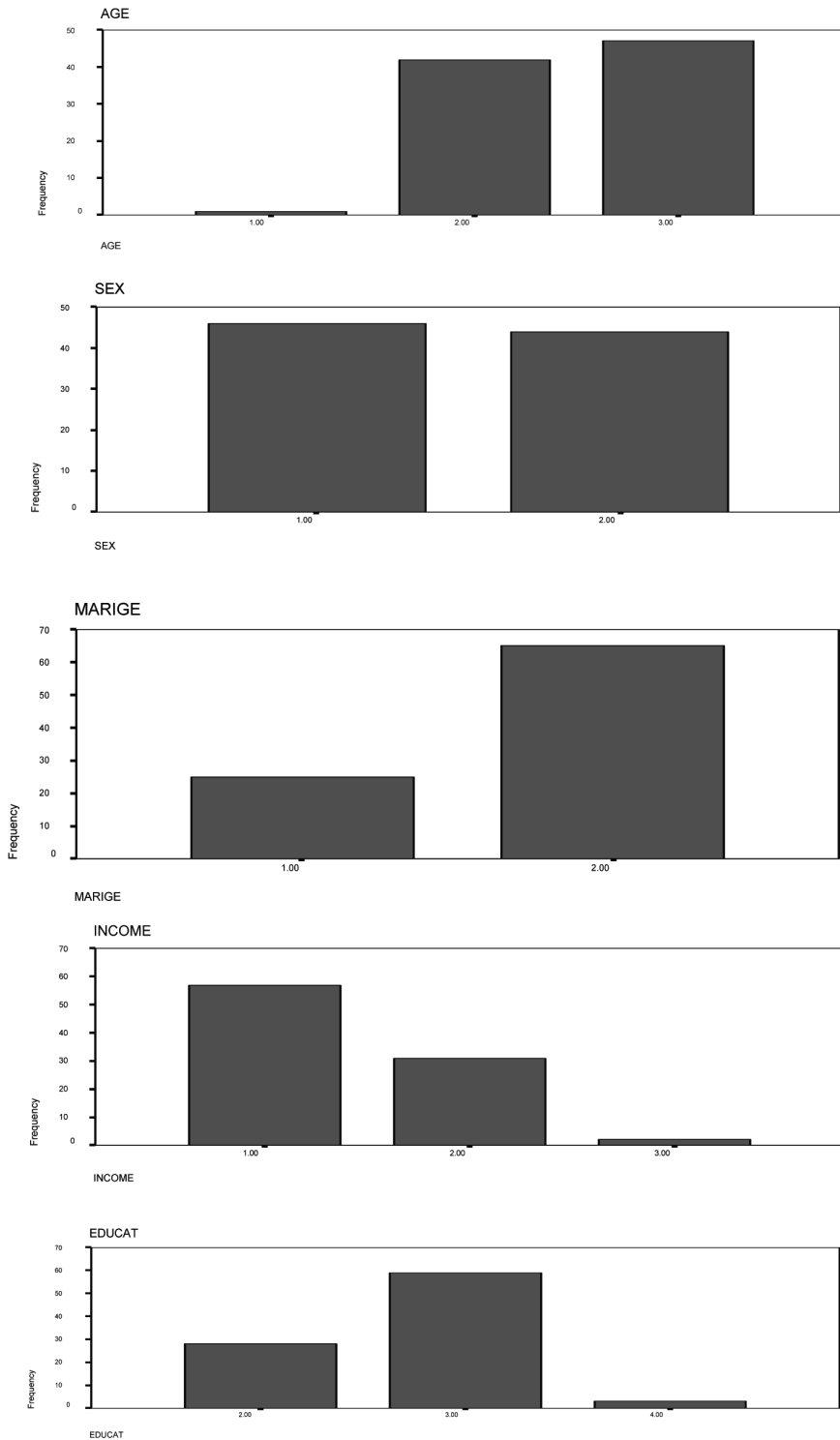
#### **5. Descriptive analyzes**

##### *5.1 Demographic Data*

The respondents in the survey had the following traits:

- The majority (89 respondents) were in the age range of 18-65. Of this group, 47 were in the age between 41-65, whereas the other 42 were in the 18-40 age group.
- There were almost as many women (44 respondents) as man (46). Of this, 25 respondents were reported as single, whereby 65 of them were married.
- There were almost as many women (44 respondents) as man (46). Of this, 25 respondents were reported as single, whereby 65 of them were married.
- When asked about their income status, 57 of the surveyed reported earning bellow 500€ per month, 31 reported in the category of 500-1500€, only 2 described themselves as earning from 1500-3000€, there was no responded earning more than 3000€
- In terms of educational level, 28 of the surveyed have finished high-school, 59 reported as B.A graduates, and 3 of them have taken master or another degree.

Figure 1: age, gender, income, marital status, educational level of respondents



## 5.2. Measures

The findings from the survey indicate that from all service quality questions, highest mean values were found for the items representing the following dimensions. Please refer to the model presented below.

	Item	Mean Value
Assurance	The clarity and adequacy of explanations	5,2000
Responsiveness	The willingness of the stuff to help	5,1556
Tangibility	The availability of adequate equipment	5,1222

This results signify the areas in which customers valued the bank's performance most satisfactory. In addition to this findings, highest score for each of this questions was: assurance(6 with 28,9) responsiveness(6 with 28,9) and tangibility(5 and 6 with 25.6%).

In contrary to this, lowest mean values were reported for the items representing responsiveness and tangibility

	Item	Mean Value
Responsiveness	(3) The availability of immediate service for older client	3,2278
	(2) The willingness to help, without the client asking for it	3,4489
Tangibility	(2) The simplicity level of the documentation procedures	3,5222

These results indicate the areas in which the customer evaluated the performance of the bank at the lowest level. Highest percentage of the respondents assessed each of this question with: responsiveness-question 3 ( 2 with 26,7%) responsiveness-question 2 (3 with 26,7%) and tangibility ( 4 with 21,1%).

The conflict of these findings, in the area of tangibility and responsiveness, may further affect the establishment of clear relationship among this dimensions and the dependent variable. Also, this may create difficulties in the finding clear factor patters for the particular dimensions.

Figure 2: Frequencies, means, and standard deviations of measures

Label	Frequency (% of cases)					Mean	St. Dev.		
	1	2	3	4	5				
Q1 Tang 1		3.3	15.6	16.7	26.7	31.1	6.7	4.8667	1.2913
Q2 Tang 2	12.2	17.8	18.9	21.1	17.8	11.1	1.1	3.5222	1.5881
Q3 Tang 3	2.2	8.9	5.6	20.0	22.2	32.2	8.9	4.8333	1.5009
Q4 Tang 4		6.7	7.8	15.6	25.6	25.6	18.9	5.1222	1.4443
Q5 Rel 1	5.6	4.4	10.0	12.2	27.8	26.7	13.3	4.8556	1.6184
Q6 Rel 2		10.0	8.9	21.1	24.4	28.9	6.7	4.7333	1.4046
Q7 Rel 3	5.6	10.0	10.0	17.8	21.1	15.6	20.0	4.6556	1.7999
Q8 Rel 4	11.1	13.3	20.0	31.1	13.3	8.9	2.2	3.5778	1.5064
Q9 Res 1	1.1	2.2	13.3	11.1	25.6	28.9	17.8	5.1556	1.4214
Q10 Res 2	7.8	20.0	26.7	21.1	11.1	12.2	1.1	3.4889	1.4934
Q11 Res 3	12.2	26.7	16.7	23.3	10.0	8.9	2.2	3.2778	1.5796
Q12 Res 4	7.8	13.1	30.0	11.1	18.9	13.3	5.6	3.8222	1.6597
Q13 Assu 1		2.2	14.4	11.1	24.4	28.9	18.9	5.2000	1.3837
Q14 Assu 2		6.7	11.1	23.3	32.2	15.6	11.1	4.7222	1.3494
Q15 Assu 4	1.1	5.6	13.3	14.4	22.2	25.6	17.8	4.9889	1.5324
Q16 Emp 1	2.2	10.0	13.3	17.8	21.1	27.8	7.8	4.6000	1.5564
Q17 Emp 2	3.3	8.9	13.3	18.9	20.0	25.6	10.0	4.6000	1.6062
Q18 Emp 3	3.3	10.0	15.6	21.1	25.6	14.4	10.0	4.3889	1.5700
Q19 Emp 4	3.3	6.7	8.9	23.3	24.4	24.4	8.9	4.6778	1.4978
Q20 C. S. 1	3.3	8.9	11.1	22.2	26.7	18.9	8.9	4.5222	1.5304
Q21 P.A. 1	2.2	15.6	17.8	27.8	17.8	15.6	3.3	4.0333	1.4569

### Tangibility

For the tangibility dimension, highest response percentage was found for item 3 (32,2% answered 6), whereas lowest percentage was found for question 2 (1.1% answered 7). For the first item highest percentage of cases answered 6 (31,1) and lowest part of them answered 2 (3,3%). For the second item, highest percentage of respondents answered 4 (21,1%) and lowest part of them answered 7 (1,1%) In the third question, largest part of respondents answered 6 (32,2%) and lowest percentage (2,2%) rated 1. In the final question, 25,6 % of respondents rated 5 and 6 equally, whereas 6,7% answered 2. The low correlation among responses, might latter on affect the relationship we expect to emerge.

### Reliability

In the reliability construct, greatest response was found for item 4 (31,1% answered 4), which was also found to have least response rate.(2.2% answered 7) For the first item, 27,8% answered with 5, and only 4,4% answered 2. In the second question, highest percentage circled number 6 (28,9%) and 6,7% circled number 7. In the third item 21,1% responded with 5, and 5,6% responded with 1. In the final item, 20 % answered 3, and only 2,2% answered 7. We can see good correlation among answers in this dimension, in the sense that all of the greatest percentages were distributed among the upper-range of the scale, however, the final question may problematical latter on.

### Responsiveness

In the responsiveness variable, highest score was reported for item 4 (30% answered with 3), whereas lowest score was found for both item 1 and 2 equally( for item 1, 1.1% answered with 1, and for item 2, 1,1% answered 7) In the first question, highest percentage answered with 6 (28,9%), and lowest percentage circled number 1 (1,1%).In the second question, 26,7% responded with 3, and 1,1% responded with 7. In the third question, 26,7% replied with 2, whereby 2,2% answered with 7. In the last question, 30% responded with 3, whereas 5,6% answered with 7. Due to the weak correlation in response between the first item and the other three items, difficulties in finding a clear factor pattern might emerge.

### Assurance

In the assurance dimension, highest response percentage was found for item 2(32,2% responded with 6), and the lowest response percentage was reported in item 2(2,2% answered with 2).In the first question, 28,9% circled the number 6, whereas 2,2% circled the number 2. For the second item, 32,2% answered with 5, and 6,7% answered with 2. The third item was found as invalid measurement in the factor analyzes. In the fourth question, 25,6% responded with 6, and 1.1% responded with 1. It can be seen that highest response was found for the upper-range of the scale, indicating a good internal consistency of the dimension.

### Empathy

For the empathy construct, highest score was registered in item 1 (27,8 % answered with 6), whereas lowest reply was found in item 1 (2,2% responded with 1) In the first item, 27,8% responded with 6, and only 2,2% responded with 1. In the second question, 25,6% answered with 6, and 3,3% answered with 1. In the third item, 25,6% replied with 5, whereby 3,3% answered with 1. In the last question, 26,7% circled number 5, and 3,3% circled the number 1.

## 6. Results

In order to determine wheatear the five factor conceptualization of service quality is valid in Republic of Macedonia's banking sector, the data was tested into the statistical soft-were package SPSS and checked for any incorrect entries. The service quality data has been analyzed into three stages: by conducting factor, reliability and regression analyzes. To avoid any irregularities (e.g negative eigen values), irrational questioners were excluded from the analyzes, at the end of which, 90 questionnaires were retained.

### 6.1 Study Purification, First Stage

Examining the dimensionality of the 20 item scale was the first task, and was accomplished by factor analyzing the different scores of each item.

The 5 factor solution was tested with the use of orthogonal rotation. (VARIMAX) Each dimension was considered on separate bases, and every item was factor analyzed. When a particular dimension was providing for a single factor solution, the additional variables composing that dimension were retained. Variables which had insufficiently high loading on more than one factor, were eliminated.

As shown in Table 1, clear factor pattern emerged, since all of the originally five dimensions were providing for a single factor solution. One of the items had high loading on more than one factor, thereby implying that the factors may not be independent from each other. (assurance 3) When this item was removed, the remaining items assigned to each dimension, consistently had high loadings (> 0.5) on only one of the factors extracted. At the end, five factors with eigen values greater than 1 were recognized, all of which had more than one item with a clear pattern of loading. All of this suggests that service quality in Republic of Macedonia's banking sector might have five fairly unique facets.

Figure 3: Summary of results from the factor analysis

	Rotated Component Matrix				
	Component				
	1	2	3	4	5
TANG1	.371	6.139E-02	-5.02E-02	.708	3.153E-02
TANG2	.288	.185	3.226E-02	.716	7.635E-02
TANG3	5.264E-02	3.309E-02	.150	.813	-1.12E-02
TANG4	-5.09E-02	4.361E-02	.257	.788	.137
REL1	.834	.120	.138	.158	.247
REL2	.814	.252	-6.10E-03	6.215E-02	.117
REL3	.713	.215	7.957E-02	.196	.180
REL4	.721	.162	.192	.144	3.032E-02
RES1	.177	.630	.157	4.990E-02	.337
RES2	.254	.858	.146	-1.56E-02	.153
RES3	.157	.858	3.588E-02	.125	6.927E-02
RES4	.178	.874	4.031E-02	.148	.142
ASSU1	.477	.210	-5.10E-02	7.845E-02	.618
ASSU2	.260	.356	-4.30E-02	.204	.681
ASSU4	7.839E-02	.145	.270	-2.48E-03	.807
EMP1	.255	-1.97E-03	.774	8.648E-02	6.237E-02
EMP2	5.076E-02	6.733E-02	.807	.134	.146
EMP3	-4.40E-02	8.875E-02	.817	6.582E-03	-3.32E-02
EMP4	9.127E-02	.129	.786	.152	6.031E-02

### 6.2. Study Purification, Second Stage

Because of the multidimensionality of the service quality construct, coefficient alpha needs to be computed separately for each dimension to ascertain the extend to which items making up each dimension shared a common core. (Parasuraman et al, 1985 p.19)

At the second stage, Cronbach's  $\alpha$  was calculated to test the reliability of each factor. "A Cronbach's  $\alpha$  analyzes led to the deletion of poor items and the improvement of the internal consistency of some factors" (Parasurman et al,1988, p.20) In addition, constructs which are exceeding the recommended alpha value of 0.7, exhibit higher degree of reliability. However, researchers have accepted the lowest reliability of 0,59 and the highest reliability of 0,97 (Karankitkorn. O. 2004, p.8). Table 2 shows the reliability indicators of each of the factors. As it can be seen, the alpha value for each dimension is exceeding 0.7, indicating a good internal consistency among items within each dimension.



Figure 3: Summary of results from the Reliability analyzes

Factor	Chronbach's $\alpha$	Items
1. Tangibility	0.7957	Tang 1 Tang 2 Tang 3 Tang 4
2. Reliability	0.8533	Rel 1 Rel 2 Rel 3 Rel 4
3. Responsiveness	0.8826	Res 1 Res 2 Res 3 Res 4
4. Emphaty	0.8240	Emp 1 Emp 2 Emp 3 Emp 4
5. Assurence	0.7260	Assu 1 Assu 2 Assu 4

### 6.3 Study Purification, Third Stage

At the final stage, regression analyzes will be applied to determine the relative importance of each service quality dimension. Critical ratios will be used to evaluate the statistical significance. Parameters which have a critical ratio greater than  $|1.96|$  will be considered significant. Based on this criterion, the regression model equation  $U = a + b_1X_1 + b_2X_2$  needs to be resolved, in order to determine the relative impact of each statistically significant dimension on predicting the value of the dependent variable.

#### Hypothesis 1

To begin with, the relationship between service quality and customer satisfaction was tested. This was done by regressing the average score for each of the dimensions on the overall customer satisfaction score obtained from each individual surveyed. Table 3 explains the regression coefficients of t-value, significance and standardized beta coefficients.

Only three of the dimensions-Reliability, Assurance and Empathy - were found to have statistically significant relationship with customer satisfaction. No significant relationship was found between the other two dimensions (Tangibility  $t < |1.96|$  Responsiveness  $t < |1.96|$ ) and customer satisfaction. Results indicate that although service quality is a five-dimensional construct, only three of its factors are relatively important determinants of customer satisfaction in Republic of Macedonia's banking sector. The regression equation for the relationship between service quality and customer satisfaction is  $U = -2.569 + 7.803X_1 + 2.931X_2 + 2.706 X_3$ .

Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1	(Constant)	-1.325	.516		
	MREL	.687	.088	.594	7.803
	MRES	7.182E-02	.084	.062	.857
	MEMP	.221	.075	.184	2.931
	MTANG	2.918E-02	.088	.022	.333
	MASSU	.274	.101	.205	2.706

In terms of relative importance, the results show that reliability is the most critical dimension, followed by empathy and assurance. (responsiveness and tangibility have lowest importance) This findings are in compliance to Parasuraman et al (1988) categorization of importance, in the sense that reliability was found to be most importance dimension. However our findings did conflict in the empathy dimension, since they categorized it as the least important dimension. Nonetheless, our findings were in accordance to Verma. H & Sachdev. S (2004) categorization of importance, whose findings indicated that empathy is the most important dimension in the banking sector. (p.109)

Hypothesis 2

In our study, no support was found for hypothesis 2, implying that there is no significant relationship between service quality and price awareness. (Table 4) This signifies that while the bank may be improving its service quality, price awareness will stay unaffected. Thus, we reject hypothesis 2 on the basis that no significant relationship was found existent.

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.557	.892		3.990	.000
	MREL	.125	.152	.113	.820	.415
	MRES	.111	.145	.101	.768	.445
	MEMP	-5.80E-02	.130	-.051	-.445	.657
	MTANG	.125	.151	.099	.828	.410
	MASSU	-.166	.175	-.131	-.950	.345

a. Dependent Variable: P.A

Hypothesis 3

We reject hypothesis 3, on the basis that no significant relationship was found between price awareness and customer satisfaction. In addition, the increased level of price awareness does not influence the level of customer satisfaction. However, given that the error of significance is small and the t-value is close to the critical ratio [1.96], it may be argued that to some extent, price awareness does affect customer satisfaction.

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.766	.472		7.975	.000
	P.A	.188	.110	.179	1.702	.092

a. Dependent Variable: C.S

7. Conclusion

7.1 Discussion

The purpose of this small-scale project was to investigate three considerably important questions. Each of the three assumptions is demonstrated through the models below.

- how service quality affects customers satisfaction in Republic of Macedonia's banking sector
- whether improvements in service quality will lead to increased price awareness
- what impact does price awareness have on customer satisfaction

model 1- relationship between service quality and customer satisfaction

model 2-relationship between service quality and price awareness

model 3- relationship between price awareness and customer satisfaction

The five-dimensional service quality framework has been considerably supported through the literature. The purpose of this paper was to assess the applicability of alternative measures of service quality in the context of the banking sector in Republic of Macedonia. The study was based on a survey conducted among the customers of the two largest banking institutions in the country, at the end of which 90 respondents were evaluated.

The overall findings of this project, supported the relationship between service quality and customer satisfaction. Thus, our study supports the foundation in the literature, in the sense that customer satisfaction and service quality are found to be interrelated constructs even in a developing economy as it is the case of Republic of Macedonia. (Inacobucci, D et al, 1995)

In order to test the generalizability of the five factor structure, the service quality data has been analyzed into three stages. At the first stage, factor analyses were conducted to assess the dimensionality of the 18 items. The results supported the five dimensional concept of service quality recognized in the literature. (Parasuraman et al, 1988) At the second stage the internal consistency of each dimension was examined with the use of reliability analyses, upon which completion, all of the five dimensions were found to be reliable constructs. At the 'regression analyses' stage, three of the service quality dimensions were found to have statistically significant impact on customer satisfaction. In addition, reliability, empathy and assurance are the most important facets of service quality, when customer satisfaction is evaluated. The other two dimensions were found to have statistically weak relationship with customer satisfaction. However the low significance of the tangibility and responsibility dimension, might be a consequence of the low correlation among responses, indicated earlier in the study.

The literature has founded identifiable but weak relationship among price awareness, service quality and customer satisfaction (Kangis. P & Passa.V, 1997) Scholars have identified that the strength of the price-quality relationship is considerably weaker in the case of services than for physical products. (Zeithmal.V 1988, p.8) In our study where service quality was considered as a dependent variable and price awareness as independent, no relationship along any of the dimensions was found to be statistically significant. Some researchers have stated that price is an indicator of quality when no other cue of quality is available and when brands are unfamiliar (Zeithmal.V 1988, p.10) Thus, with most of the banks offering brand and service differentiation as part of their strategy, the price dimension becomes more difficult to assess.

Similarly, the relationship between price awareness and customer satisfaction was found to be statistically insignificant, although someone may identify the existence of weak correlation. These findings are in compliance to Kangis. P and Passa. A (1997) research, who found that price awareness has weak relationship with customer satisfaction, although it might have some bearing, when the possible influence of other factors is weak. The intangibility of the service and the fact that it varies with each encounter makes it difficult to use price as an indicator of customer satisfaction. (Kangis.P and Passa.A, 1997, p.113) Nevertheless, we might agree that when a customer views the service as homogenous, price awareness may play an important role in their decision-making. (Kotler. P, 2001 p.383).

## 7.2 Limitations

The study should be seen as a preliminary one, characterized by some limitations.

A certain limitation is that the scale construction is entirely based on "expert" opinions and published literature. Consequently, additional items which might be of particular importance to the banking sector, were not included in the study. It is important to note that primary qualitative research with bank customers needed to be a priority.

Second, the study is limited to one industry, thus, generalizing the findings beyond the banking industry may provide invalid results.

Further limitation is the small sample size employed in the study, which implies that the results may not be appropriate indicators for the overall market situation. Moreover, the sample was composed only from retail customers, as a result of which the study is not applicable for the corporate customers group.

Limited resources and time were another constrain, affecting the quality of the data collected.

Finally, limited number of financial institutions were included in the study, as such, caution should be exercised in generalizing these results to the overall banking industry.

### *7.3 Managerial Implications*

Understanding of what quality means to the customer, should be a focal point of attention to managers. There are several factors that managers can use to improve the service delivery process and to establish long terms relationships with customers. Most decisive factor, is the ability of the bank to accurately deliver the promised service. Reliable service has the strongest effect on the intention to stay in relationship, and thus on future revenues. Service guarantees are an efficient instrument in showing the company capability of delivering valuable service, and thus, it signifies the company's customer commitment, trough which it can differentiate itself from competitors. The other factors which add value to the service are related to the human factor of the organization. In addition, although customers are becoming more and more technologically savvy, they are also demanding more and more personalized service and skilled employees from service providers. (Angur.M, 1999, p122) Training programs and reward systems are some of the strategies that banks can use to ensure effective personnel commitment.

In this highly competitive environment, it is critical for banks to start viewing quality from customer perspective, rather than evaluating it from their own point of view. (Zeithmal.V,1988 ,p.17) Thus, continues research is necessary, to identify the most important dimensions of quality, required by the customer. Nonetheless, because of the changing nature of customer perceptions, banks must consistently adopt their product and marketing strategies to this changes. Concurrent with the efforts to improve perception, they should also adjust to customer expectations. Advertising can serve to narrow the gap between the expectations and perceptions of customers.

For tangible products, there is a long-lasting perception that higher price means better quality. However, as Kangis. P and Passa. V (1997) imply this situation is different in the banking sector. (p.111) Their intangibility and high heterogeneity makes this relationship less supportive. Price might be considered as a short-term determinant, when other things are being equal. One thing is certain, more informed customers are more loyal towards a bank. (Kangis. P and Passa. V ,1997.p 117) Thus, communicating the information of charges more clearly , might have an impact on attracting and retaining rs.

To sum up, what might be important of one group of customers may be unimportant for another. Some people are concerned about price while others are not (Kangis. P and Passa.V ,1997,p 117) Thus, managers must spend time on determining the variability of the customer base.

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