THE IMPACT OF SERVICE QUALITY ON ORGANIZATIONAL PERFORMANCE. DOES MARKET ORIENTATION MATTER?

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THE IMPACT OF SERVICE QUALITY ON ORGANIZATIONAL PERFORMANCE.
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This project is submitted in partial fulfillment of
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Statement of Originality

The work described in this Final Year Project, entitled "The Impact of Service Quality on Organizational Performance. Does Market Orientation Matter?" is to the best of the author’s knowledge that of the author except where due reference is made.

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ABSTRACT

THE IMPACT OF SERVICE QUALITY ON ORGANIZATIONAL PERFORMANCE. DOES MARKET ORIENTATION MATTER?

By

Liew Sin Yean

This study tries to examine the relationship between service quality and market orientation and their impact towards organizational performance. A total of 175 sets of questionnaires were distributed to the employees of the selected organizations in Kuching, and 92% of it, which is 161, was returned. The results show that service quality has a significant effect on organizational performance and market orientation. Market orientation also has a significant effect on organizational performance. In addition, this study found that market orientation will moderate the relationship between service quality and organizational performance. There is still a shortage of research studying the impact of market orientation as a moderator on the relationship between service quality and organizational performance. Thus, this study contributes a significant knowledge to the service industry.
ABSTRAK

IMPAK KUALITI SERVIS TERHADAP PRESTASI ORGANISASI. ADAKAH ORIENTASI PASARAN MEMBERI KESAN?

Oleh

Liew Sin Yeon

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Chapter 1
INTRODUCTION

1.1 Background

Service quality has been seen as critical for service firms to position themselves strongly in a competitive environment (Parasuraman, Zeithaml, & Berry, 1985; Mehta, Lalwani, & Soon, 2000) and also as indicators of business performance (Hurley & Estelami, 1998). When organizations are faced with larger, powerful retail competitors, smaller stores could compete by improving service instead of competing on price (Klemz & Boshoff, 2001). Focusing on service quality is seen as critical in markets that offer similar products in the store (Berry, 1986), commonly seen in grocery retail stores. However, improvement of the quality of services requires identification of the service quality attributes that are important to retail customers.

Service quality and market orientation have long been recognized as playing an important role for success and continued existence in today’s competitive market. Not surprisingly, considerable research has been conducted on these two concepts. Mostly, the service quality and market orientation have been linked to customer behavioral intentions like purchase and loyalty intention, willingness to spread positive word of mouth, referral, and complaint intention by many researchers.
In today’s fast-paced and increasingly competitive market, the bottom line of a firm’s marketing strategies and tactics is to make profits and contribute to the growth of the company. Service quality and market orientation are global issues that affect all organizations, be it large or small, profit or non-profit, global or local. Many companies are interested in studying, evaluating and implementing marketing strategies that aim at improving service quality and maximizing share of customers in view of the beneficial effects on the organizational performance (Yap & Kew, 2007).

In recent years, many organizations have tried to manage organizational performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions such as: financial performance (e.g. shareholder return), customer service, social responsibility (e.g. corporate citizenship, community outreach), and employee stewardship. Specialists in many fields are concerned with organizational performance including strategic planners, operations, finance, legal, and organizational development.

The inability of development agencies to understand and improve the performance of the organizations they support continues to slow down the progress in the developing world, even after a decade of reforms. Strengthening the institutions that receive those grants and loans including government ministries and executing agencies as well as nongovernmental organizations has become the key to improving the efficiency and effectiveness of development assistance.
1.1.1 The Malaysian Scenario

As many industry sectors grown-up, competitive advantage through high quality service is an increasingly important weapon in business survival (Osman & Ismail, 1989).

Smaller companies in Malaysia are seen as offering more personal services (Osman & Ismail, 1989) but with inadequate stocks and facilities (Moreira, 2003); a contrast to the larger company which are seen as offering better products choice and public services (Moreira, 2003) but with standardized and non-personalized services (Osman & Ismail, 1989). As competition is higher in the more urban area, small company should be looking for strategic options to increase investment. Indeed, retaining current customers leads to a continuing increment in the customer base and profits gained from the customers grow with the loyalty of the customers.

The restaurant industry has certainly not been excused from increased competition or rising consumer expectations of quality. In Malaysia, the restaurant industry is suffered a dramatic revolution and experiencing heightened competition. Restaurant is an important but often neglected area of study (Kivela, Inbakaran, & Reece, 1999a). The fact is that ‘restaurant business’ is regarded as a low acceptance service and the quality of the services are difficult to prove until customers support the restaurant. Moreover, the quality of the service that customers encounter may be different each time they re-visit that particular restaurant, thus influencing the level of satisfaction and in the end affecting their repurchase intentions.
Mobile phone service providers in Malaysia are increasingly facing difficulties in protecting or enhancing market shares in a marketplace where customers are becoming more demanding and competitions are increasing. Long-term success therefore relies on the ability of service providers to gain and retain customers. This can be achieved by providing customers with excellent service quality. Specifically, the argument examined is that higher levels of service quality leads to customer satisfaction, which then leads to willingness to continue subscription and recommend service. The assumption thereon is that both these desired outcomes are likely to be key factors that help service providers acquire and sustain competitive advantage, resulting in increased market share and profitability. Hence, it implicates that service providers can increase market share and profitability in a competitive environment by providing customers with better service quality (Hwai, 2001).

The airline industry around the world has faced a worst-case scenario due to the impact of global softness, fear of violence, war in Iraq and the spread of Severe Acute Respiratory Syndrome (SARS). This has affected the airline companies tremendously. In order to investigate this problem, a research was designed to find out consumers’ perceived service quality towards MAS and Air Asia. Moreover, it determined the service quality in order to provide recommendations and appropriate strategies for MAS and Air Asia in today’s environment. Consumers tend to become loyal to the airline company when the service quality is good. When a customer is loyal to an airline company, they would believe and trust the airline services provided by the company. Therefore, they would be confident to fly with the airline company even under today’s critical environment (Wong, 2003).
1.2 Problem Statement

Conventional marketing intelligence holds that a market orientation provides a company with a better understanding of its customers, competitors, and environment, which leads to superior firm performance. While researchers have explored the relationship between market orientation and business performance in different organizations, such studies in small-sized service retailers are scarce.

Many studies prove that better service quality leads to better organizational performance. It has already been established that the concept and principles underlying market orientation could improve organizational performance. Many studies also have shown that good market orientation practices will lead to effectiveness like service quality, which is becoming crucial for service organizations in fulfilling the customers’ requirements and hence could lead to better organizational performance.

Thus, besides knowing the impact of service quality on the organizational performance, it is also important to know whether the market orientation will have an effect on the impact of service quality on organizational performance.
1.3 Research Objectives

There are two types of objectives which are general objective and specific objective.

1.3.1 General Objective

Since the service quality and market orientation become crucial for service organizations in fulfilling the customers’ requirements which could lead to better organizational performance, this study looks for the impact of service quality on organizational performance. This study also examines whether the market orientation will moderate the impact of service quality on organizational performance.

1.3.2 Specific Objectives

The specifically objectives of this study are:

i. To find out the impacts of service quality on organizational performance

ii. To determine the effects of market orientation on organizational performance

iii. To identify whether the market orientation would moderate the relationship between service quality and organizational performance
1.4 Research Questions

The research questions in this study consist of:

i. Will the service quality have positive impact on organizational performance?

ii. Will the market orientation directly affect the organizational performance?

iii. Will market orientation moderate the relationship between service quality and organizational performance?

1.5 Definition of Key Terms

1.5.1 Service Quality

i. Service quality - an attitude formed by a long-term, overall evaluation of a firm’s performance (Cronin & Taylor, 1994).

ii. Tangible - the appearance of physical facilities, equipment, appearance of personnel, and communication materials (Parasuraman et al., 1988).

iii. Reliability - the ability to perform the promised service dependably and accurately (Parasuraman et al., 1988).

iv. Responsiveness - the willingness to help customers and provide prompt service (Parasuraman et al., 1988).
v. Assurance - the knowledge and courtesy of employees and their ability to inspire trust and confidence (Parasuraman et al., 1988).

vi. Empathy - the caring, individualized attention the firm provides to its customers (Parasuraman et al., 1988).

1.5.2 Market Orientation

i. Market orientation - a basic part of organizational culture and not a set of processes and activities that aimed to create a market oriented culture (Peter, 1994).

ii. Customer orientation - the set of beliefs in sales that says that customer needs and satisfaction are the priority of an organization (Peter, 1994).

iii. Competitor orientation - the degree of a firm's efforts to understand the short-term strengths and weaknesses and long-term capabilities and strategies of key competitors, both current and potential (Peter, 1994).

iv. Cross-functional integration - the degree of a firm's coordinated efforts to utilize a firm's resources in generating superior value for target customers (Peter, 1994).
1.5.3 Organizational Performance

i. Organizational performance - the extent to which the organization is able to meet the needs of its stakeholders and its own needs for survival (Mark, 2005).

ii. Output/Productivity - the quantity of services delivered. It is a measure of effort which usually expressed in units (Mark, 2005).

iii. Employee satisfaction - the extent to which workers are satisfied with their work and conditions in the agency (Mark, 2005).

iv. Client satisfaction - the extent to which clients are satisfied with the accessibility, costs, processes, and results of service delivery (Mark, 2005).

v. Service quality - the extent to which service techniques and methods are competently delivered by comparing the characteristics of service delivery to standard (Mark, 2005).

1.6 Significance of the Study

It has been recognized that the theory and principle underlying market orientation could improve organizational performance. Many studies also have shown that good market orientation practices will lead to effectiveness like service quality, which is
becoming crucial for service organizations in fulfilling customers’ requirements and hence could lead to better organization performance. It is important to know how these three variables are related to each other in offering important managerial implications for service provider.

Referring to the research objectives that have been stated, this study is important for the organizations to know how the service quality and market orientation may affect their organizational performance. The outcome of the study is useful for the management and staffs of the organizations to continuously improve their service quality as imposed. The results of the improvement effort finally will benefit the organizations as well. In the long run, this study is a part of periodically and continuously evaluations and reviews series.

1.7 Scope of the Study

This study is conducted to determine the impact of the service quality on organizational performance and the role of the market orientation in this relationship. This study is useful to improve the organizations’ service quality.

Kuching have been chosen as the research scope for this study. Kuching is the capital of Sarawak which is situated at the banks of the Sarawak River with the population of about 1/2 million consisted of a mixture of Chinese, Malays, Dayak, Indians and some other ethnic groups.
The questionnaires will be distributed to the organizations located in Kuching. Several employees for each of the organization will be chosen randomly to fill in the questionnaires.

1.8 Organization of Chapters

The flow of this research includes the introduction, literature review, methodology, results, discussion and conclusion. The introduction briefly introduces the background, problems, objectives, questions, significance, and the scope of the study. The literature review summarizes the previous researcher studies that are relevant to this topic. Besides, the methodology shows the research methodology such as data sources, data description, and data analysis. Whereby, the results show a brief discussions based on the findings of the results towards the study. Lastly will be the discussion and conclusion which include the recommendation, implication and limitations of the study.
Chapter 2

LITERATURE REVIEW

2.1 Introduction

This chapter discusses about some of the local and foreign studies in relation to the research topic. In this chapter, the literature review of service quality, market orientation and organizational performance are put forward. This chapter also discussed about the relationship between the service quality and organizational performance, the relationship between the market orientation and service quality, and the relationship between the market orientation and organizational performance. Besides that, the gap in the theoretical framework which includes the literature gap and description of variables will also include in this chapter. The development of hypotheses is also shown in the end of this chapter.

2.2 Service Quality

Service quality has been seen as significant for service firms to position themselves strongly in a competitive environment (Parasuraman, Zeithaml, & Berry, 1985; Mehta, Laiwani, & Soon, 2000) and also as indicators of business performance (Hurley & Estelami, 1998). Service quality is the great differentiator; it gets and keeps the customer’s attention (Parasuraman, Zeithaml, & Berry, 1988).
Service quality is a concept that has produce considerable interest and debate in the research literature because of the difficulties in both defining it and measuring it with no overall agreement emerging on either (Wisniewski, 2001). There are a number of different "definitions" as to what is meant by service quality.

It is commonly used to define service quality as the extent to which a service meets customers’ needs or expectations (Lewis & Mitchell, 1990; Dotchin & Oakland, 1994a; Asubonteng, McCleary, & Swan, 1996; Wisniewski & Donnelly, 1996). Service quality can thus be defined as the difference between customer expectations of service and perceived service. If expectations are greater than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs (Parasuraman et al., 1985; Lewis and Mitchell, 1990).

Most of the service quality definitions fall within the “customer led” category (Ghobadian, Speller, & Jones, 1994). Juran (1999) elaborates the definition of customer led quality as “features of products which meet customers’ needs and thereby provide customer satisfaction.” As service quality relates to meet customers’ needs, we will be looking at “perceived service quality” in order to understand consumers (Arnauld, Price, & Zinkhan, 2002). The traditional approach for defining service quality emphasizes that service quality perception is a comparison of consumer expectation and their perceptions of the actual service received (Gronroos, 1984; Parasuraman et al., 1985).
Bitner, Booms, and Mohr (1994) defined service quality as ‘the consumer’s overall thought of the relative inferiority or superiority of the organization and its services. Some researchers view service quality as a form of attitude representing a long-run overall evaluation (Cronin & Taylor, 1994; Taylor & Cronin, 1994). Parasuraman et al., (1985) defined service quality as ‘a function of the differences between expectation and performance along the quality dimensions’. Besides that, Roest and Pieters’ (1997) defined that service quality is a relativistic and cognitive difference between experience-based norms and performances concerning service benefits.

Some researchers look at perceived service quality as an attitude. Arnauld et al., (2002) defined perceived quality “whether in reference to a product or service” as “the consumers’ evaluative judgment about an entity’s overall excellence or superiority in providing desired benefits”. Hoffman and Bateson (2001) defines service quality as an attitude “formed by a long-term, overall evaluation of a performance”. Attitude is defined as “a consumer’s overall, enduring evaluation of a concept or object, such as a person, a brand, or a service.” (Arnauld et al, 2002).

Feinburg and de Ruyter (1995) pointed the importance of adapting the definition of service quality in different cultures. The differences in culture affect measure of quality in a service sector. They summarized service quality measures as “culturally sensitive” and “may not perform properly or comparatively in a culturally diverse group domestically or abroad”. Feinburg and de Ruyter (1995) postulated that the differences “require adapting service quality to an international setting”.