SME BORROWERS' SATISFACTION TOWARDS BANKING SERVICES

Ngu Chiung Hung

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SME BORROWERS' SATISFACTION TOWARDS BANKING SERVICES

NGU CHIUNG HUNG

A dissertation submitted in partial fulfillment of the requirements for the degree of Corporate Master in Business Administration

Faculty of Economics and Business
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2012
DECLARATION AND COPYRIGHT PAGE

Name : Ngu Chiung Hung

Matrix Number : 10031718

I hereby declare that this research is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

Signature : [Signature]

Date : 08-05-2012

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# List of Tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1.1</td>
<td>Definition of SME In Terms of Number of sales turnover</td>
<td>9</td>
</tr>
<tr>
<td>Table 1.2</td>
<td>Definition of SME In Terms of Number of full-time employees</td>
<td>9</td>
</tr>
<tr>
<td>Table 4.1</td>
<td>Summary of Respondents’ Demographic Profile</td>
<td>39</td>
</tr>
<tr>
<td>Table 4.2</td>
<td>Descriptive Statistics on SME Borrower’s Expectations, Perceptions and Gap Mean of Service Quality in Commercial banks in Sibu.</td>
<td>42</td>
</tr>
<tr>
<td>Table 4.3</td>
<td>Paired Sample Tests</td>
<td>43</td>
</tr>
</tbody>
</table>
ABSTRACT

Banking industry is one of the important sectors of service industry in Malaysia. Financial services in general, especially banks, compete in market place with common products and services, which cause service quality to become a critical competitive tool. The information gathered from the SME Borrowers can be utilized to enhance a much more efficient marketing strategy in the banking industry. The purpose of this study is to examine the level of satisfaction by these customers in relation to the banking services in Sibu. The study also seeks to analyze the importance of the tangible and intangibles factors in the banking sector.

The SERVQUAL instrument was applied to assess SME borrowing customers’ expectation and perceptions of services provided by banks in Sibu and to highlight how the service factors were related to customer satisfaction. A questionnaire with five-point Likert scale was conducted to measure these customers’ satisfaction in all the commercial banks at Sibu. Data was analyzed using SPSS software by employing descriptive studies and paired T-test.

A total of 102 respondents were chosen as sample for the study. Results showed that both tangibles and intangibles factors (tangible, reliability, responsiveness, assurance and empathy) had significant relationship in influencing the SME borrowing customers’ satisfaction in Sibu, Sarawak. These results have important implications for bank managers to improve quality service.
TABLE OF CONTENTS

Approval Page ii
Declaration and Copyright Page iii

Acknowledgements iv
List of Tables v
List of Figures vi
Abstract vii

Chapter 1 INTRODUCTION

1.1 Background Study

1.1.1 Development of Banking In Malaysia 1-2
1.1.2 Financial Institutions 2-3
1.1.3 Banking Products & Services 3
1.1.4 Psychedelic Sixties 3-4
1.1.5 The Sensational Seventies 4-5
1.1.6 The Edgy Eighties 5-6
1.1.7 The Retro Nineties’ On To the New Millennium 6
1.1.8 About Banks in Sibu 7-8
1.1.9 About Small & Medium-sized Enterprises (SME) 8-10

viii
# TABLE OF CONTENTS (CON’T)

1.2 Problem statement  
10-11

1.3 Objective of the Study  
11

1.4 Brief Literature Review & Conceptual Framework  

1.4.1 Reason of Using SERVQUAL instead of BSQ  
11-13

1.4.2 About SERVQUAL Model  
13-16

1.4.3 Customer satisfaction and expectancy-Disconfirmation Theory  
17

1.5 Significance of the Study  
18

## Chapter 2 LITERATURE REVIEW

2.1 Banking  

2.1.1 Introduction  
19-21

2.1.2 Banking & Concept of Service Quality  
21-22

2.1.3 Banking in Malaysia  
22

2.1.4 SERVQUAL & its applications in the Banking Industry  
23-24

2.2 Customer Satisfaction  

2.2.1 What is Customer Satisfaction?  
24-27

2.2.2 Importance of Customer Satisfaction  
27-30

2.2.3 Customer Satisfaction Study in Banking Industry  
30-31

2.3 Banking Attributes  
31
# Table of Contents (Con't)

## Chapter 3 RESEARCH METHODOLOGY

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Introduction</td>
<td>32</td>
</tr>
<tr>
<td>3.2</td>
<td>Population</td>
<td>32-33</td>
</tr>
<tr>
<td>3.3</td>
<td>Questionnaires</td>
<td></td>
</tr>
<tr>
<td>3.3.1</td>
<td>Sampling</td>
<td>33</td>
</tr>
<tr>
<td>3.3.2</td>
<td>Instrument for Questionnaires</td>
<td>33-35</td>
</tr>
<tr>
<td>3.4</td>
<td>Data Collection Procedures</td>
<td>36-37</td>
</tr>
<tr>
<td>3.5</td>
<td>Data organization and Statistical Analysis</td>
<td>37</td>
</tr>
</tbody>
</table>

## Chapter 4 RESULTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Feedback of Questionnaires</td>
<td>38</td>
</tr>
<tr>
<td>4.2</td>
<td>An analysis on Respondents' Demographic Profile</td>
<td>38-40</td>
</tr>
<tr>
<td>4.3</td>
<td>Descriptive Statistics on Respondents' Evaluation</td>
<td>40-41</td>
</tr>
<tr>
<td>4.4</td>
<td>Service Quality Gap (Gap 5)</td>
<td>41-42</td>
</tr>
<tr>
<td>4.5</td>
<td>Paired T-Tests Analysis</td>
<td>43-44</td>
</tr>
</tbody>
</table>

## Chapter 5 DISCUSSIONS AND CONCLUSIONS

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1</td>
<td>Introduction</td>
<td>45</td>
</tr>
<tr>
<td>5.2</td>
<td>Gap 5 Analysis</td>
<td>45</td>
</tr>
<tr>
<td>5.2.1</td>
<td>Expectation Mean Score</td>
<td>45-46</td>
</tr>
<tr>
<td>5.2.2</td>
<td>Perception Mean Score</td>
<td>46-47</td>
</tr>
<tr>
<td>5.2.3</td>
<td>Gap Mean (G) &amp; Paired Sample Test</td>
<td>47-48</td>
</tr>
</tbody>
</table>

x
TABLE OF CONTENTS (CON’T)

<table>
<thead>
<tr>
<th>Section</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.3 Contribution of the Study</td>
<td>49</td>
</tr>
<tr>
<td>5.4 Managerial Implications/ Recommendations</td>
<td>50-51</td>
</tr>
<tr>
<td>5.4.1 Exceeding Expectation</td>
<td>51</td>
</tr>
<tr>
<td>5.4.2 Treating Customers Impartially</td>
<td>51-52</td>
</tr>
<tr>
<td>5.4.3 Empathy</td>
<td>52-53</td>
</tr>
<tr>
<td>5.4.4 Assurance</td>
<td>53-54</td>
</tr>
<tr>
<td>5.4.5 Responsiveness</td>
<td>54-55</td>
</tr>
<tr>
<td>5.4.6 Reliability</td>
<td>55-56</td>
</tr>
<tr>
<td>5.4.7 Tangible</td>
<td>57-58</td>
</tr>
<tr>
<td>5.5 Limitations</td>
<td>58-59</td>
</tr>
<tr>
<td>5.6 Avenues for Future Research</td>
<td>59-60</td>
</tr>
<tr>
<td>REFERENCES</td>
<td>61-68</td>
</tr>
<tr>
<td>Appendix 1: SAMPLE OF QUESTIONNAIRES</td>
<td>69-71</td>
</tr>
</tbody>
</table>
CHAPTER 1
INTRODUCTION

1.1 BACKGROUND STUDY

Service sector has accounted for about two-thirds of worldwide Gross National Product (GNP) for the 21st Century (Kara et al., 2005). In this industry, the topic of service quality worldwide has become a critical one because the service providers strive to maintain or increase their competitiveness in the market place.

Financial services in general, especially banks, compete in market place with common products and services, which cause service quality to become a critical competitive tool. (Stafford, 1996)

1.1.1 Development of Banking in Malaysia

Banking industry is one of the important sectors of service industry in Malaysia. It dates back to the early 1900s when rapid economic development, as a result of thriving profits from rubber plantations and the tin industry then, saw the opening of foreign bank branches and the setting up Malaysia's first domestic bank – Kwong Yik (Selangor) Banking Corporation in 1913 (it was bought by Malayan Banking Berhad or Maybank).

Since then, the banking industry has continued its steady growth and expansion until eventually there was a need for a governing body to oversee the activities and
operations of the numerous banks in the country. This led to the establishment of Bank Negara Malaysia or BNM (Central Bank), a statutory body which is wholly owned by the Federal Government.

1.1.2 Financial Institutions

Those classified as financial institutions in Malaysia constitute commercial banks, Islamic banks, merchant banks, foreign banks' representative offices, finance companies and discount houses.

Following the successful restructuring and consolidation of the banking sector in Malaysia in 2003, efforts have shifted to building the domestic financial infrastructure. The industry-wide consolidation of the domestic banking institutions resulted in 54 banking institutions being reduced to 10 domestic anchor banking groups: Affin Bank, Alliance Bank, AmBank, Bumiputra-Commerce Bank, EON Bank, Hong Leong Bank, Maybank, Public Bank, RHB Bank & Southern Bank. These banks have finance company subsidiaries.

The first round of banking consolidation was initiated by the government when it imposed a RM2 billion capitalization requirement for banks. The second phase of consolidation from 2004 onwards involved further mergers of individual banks and finance company subsidiaries as well as mergers among the 10 banking groups. Presently, there are 8 domestic anchor banking groups left as Bumiputra-Commerce Bank and Southern Bank were merged in 2006 to become CIMB Bank while EON
Bank was bought over in 2010 by Hong Leong Bank (My Money Skills Banking Services, htm).

1.1.3 Banking Products and Services

The evolution of the banking industry in Malaysia has led to conventional & Islamic banking products, such as deposits, loans and hire purchases, taking on more sophisticated and advanced features such as phone banking, phone-a-loan, auto pay, auto debit, automated teller machines (ATM) and on-line shopping and banking. These features are facilitated by advanced technological developments that allow bank customers easier and simpler methods and processes of going about their daily banking.

In an effort to improving banking services, it has also led to the introduction of new products like credit and debit cards, investment products (insurance and unit trusts), financing products and services (trade and share financing), trade and credit facilities, remittances, loans to priority sectors and Islamic financing.

1.1.4 Psychedelic Sixties

The Sixties were a truly exciting era to be in. Social changes were occurring everywhere. James Bond was introduced to the world in “Dr No”, P. Ramlee movies were all the rage, everyone was dancing and singing along to the tunes of the Beatles, and psychedelic mania ruled the world. This was a period of great change for the
The financial scene as well, as old systems were breaking down and new establishments were just starting to take root.

The existence of the banks and finance companies were clear and simple – “to assist in financing new industries under the Government’s development programmes” and “to extend banking facilities to rural areas where none exists”. They were in fact one of the key drivers in supporting the country’s economic transformation and setting new benchmarks in financial services in Malaysia.

1.1.5 The Sensational Seventies

The Seventies proved to be an even more exciting and dynamic period. Long hair and flared pants were in, political changes were still ongoing. Linda Blair had movie audiences horrified and sleepless with “The Exorcist”, A. R. Badul had local audiences in stitches, people were grooving to the beat of disco, and the atmosphere was generally filled with a sense of freedom and fun.

While the Sixties proved to be a pioneering period for many local banks, the Seventies saw its fortifying their position in the local financial scene, industrialization gathered momentum here and the implementation of the Second Malaysia Plan, gave the people a new social and economic perspective.

Throughout the Seventies, the call was made for mobilization of savings and the direction of loans to the manufacturing sector, residential housing and to the “small” man-the farmer, the fisherman, the small businessman and the man in the street.
By the end of the Seventies, a local bank, Maybank has emerged a leader in the direction of lending to the priority sectors. They were the largest contributor to the Credit Guarantee Scheme, emphasizing their responsibility to the small businessmen. Their housing loans portfolio constituted 31% of the industry’s total by then, their network of branches had reached 149. Other foreign banks were also established in Sibu to take advantage of the booming timber industry.

Before the end of the decade, many local and foreign banks had already ventured into merchant banking, insurance and the semblance of a one-stop financial centre was slowly taking shape. Even as they embarked aggressively into other spheres of business activities, studies and the groundwork for eventual computerization action of their operations had already been initiated. (Malayan Banking Berhad—Company History.htm)

1.1.6 The Edgy Eighties

Thing had really started taking off in the world during the Eighties. The “me” generation reared its head for the first time, we saw the deterioration of many global ideas’ padded shoulders were in; Eddie Murphy led the laughs at the Box Office while New Wave and British Pop lead the global airwaves with Sudirman paving the way for the local music industry.

The early Eighties saw the modernization and greater sophistication for those banks’ automated teller machines (ATM) was introduced. A new range of customer-related
services was created and once again playing their leading role in the local banking and financial industry.

1.1.7 The Retro Nineties On To The New Millennium

The years following the Nineties right through to the new millennium have seen an overwhelming array of changes that have turned the world we live in into an unimaginably small place. Information technology and the Internet have changed the way we live and see ourselves, progression in technological communications changed the way we saw each other.

At the end of the Nineties, with the impending wave of globalization approaching and the new millennium demanding even higher efficiency and higher capital from the financial industries, the following steps were taken:

- Refocus from traditional banking to comprehensive financial service;
- Enhance skills
- Leverage on technology
- Diversify income streams, and
- Develop a strong sale and service culture.

All the local and foreign banks have been very aggressive in the commercial lending business. Lending to SMEs (Small and medium-sized enterprises) is one segment that all bankers are targeting at. Top notch SME lenders are Public Bank Berhad only managed to record 2% - 3% SME loan growth in 2010 due to stiff competition.
1.1.8 About Banks In Sibu

Sibu is located within the Sarawak Central Region and the main economic activities have been timber extraction and processing, oil palm plantation and shipbuilding industries. Thus, in tandem with these robust industries, many local banks were established in Sibu by the timber tycoons and merchants in the fifties and sixties, such as Hock Hua Bank (subsequently bought by Public Bank), Wah Tat Bank (subsequently bought by Hong Leong Bank) and Kong Ming Bank (subsequently bought by MUI Bank which was taken over again by Hong Leong Bank). Presently, there are 11 local and foreign banks in Sibu as appended below:

1) Maybank Berhad
2) CIMB Bank Berhad
3) Public Bank Berhad
4) RHB Bank Berhad
5) Hong Leong Bank Berhad
6) AmBank Berhad
7) Affin Bank Berhad
8) Alliance Bank Berhad
9) HSBC Bank (M) Berhad
10) Standard Chartered Bank (M) Berhad
11) United Overseas Bank (M) Berhad

These banks offer the normal banking products and services to customers such as:

- Current accounts, saving accounts, fixed deposits accounts, remittances, automated teller machines (ATM) and many others.
• Consumer loans like housing loans, overdraft facilities, term loans, personal loans, hire-purchases, wealth management, private banking services and share trading.

To serve the business borrowing customers better, they also set up business centres in Sibu. There are 3 classes/segments of borrowing customers for these banks, i.e. Corporate Banking, Business Banking and SME Banking customers who obtain various types of financing needs from the banks.

The facilities include commercial loans like overdraft, term loans, bridging facilities, end-financing (on contract and project basis), trade facilities, hire purchases and etc.

Their purposes are for working capital requirement, part-finance the purchase of industrial land, agricultural land (oil palm plantation and other agricultural activities), import and export, construction of houses and shop houses or industrial buildings, purchase of heavy machineries and equipments, vessels like tugboats, barges, oil tankers and etc.

1.1.9 About Small and Medium-sized Enterprises (SME)

These 3 segments of customers have been served by 3 different groups of staff in an effort to serve them better. They are segregated based on different criteria, for example, corporate loans for those companies related to public listed companies like Rimbunan Hijau Group, Shin Yang Group, Ta Ann Group, WTK Group and KTS Group are handled by Corporate Banking Division.
The Business Banking Division handles those loan portfolios of customers which are neither related to public listed companies nor SME customers. The SME Banking only caters for those small and medium sized enterprises.

For the SME borrowing customers, according to BNM approved definition which is applicable to all the local and foreign banks, an enterprise is considered as an SME in each of the respective sectors based on the annual sales turnover or number of full-time employees as appended below:

<table>
<thead>
<tr>
<th>Size</th>
<th>Manufacturing (including Agro-Based) &amp; Manufacturing-Related Services</th>
<th>Primary Agriculture</th>
<th>Services Sector (including ICT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Less than RM250,000</td>
<td>Less than RM200,000</td>
<td>Less than RM200,000</td>
</tr>
<tr>
<td>Small</td>
<td>Between RM250,000 and less than RM10 million</td>
<td>Between RM200,000 and less than RM1 million</td>
<td>Between RM200,000 and less than RM1 million</td>
</tr>
<tr>
<td>Medium</td>
<td>Between RM10 million and RM25 million</td>
<td>Between RM1 million and RM5 million</td>
<td>Between RM1 million and RM5 million</td>
</tr>
</tbody>
</table>


For this thesis, the quality of service provided to SME borrowers was studied. This research seeks to evaluate the service quality with customer satisfaction of SME borrowers in Sibu (4th largest town in Sarawak which is also the largest state in Malaysia).
Following this introduction, the research presents a measurement of the relevant topics. It then presents the methodology of the research. The findings of the research are then presented, followed by a discussion of the effects and final conclusion.

1.2 PROBLEM STATEMENT

Quality is an intangible construct (Crosby, 1979). It is difficult to be articulated by consumers (Takeuchi & Quelch, 1983). However, in the service sector, the quality of service is an important strategic value (Lewis et al., 1994). Service quality has a close relationship with customer satisfaction, positive word of mouth (Buttle, 1996), customer retention, repurchasing behavior and growing market share (Siu & Cheung, 2001). Thus, companies involved in service sector must constantly assess their quality of service with a view to gain/achieve strategic competitiveness.

The banking industry is growing in competitiveness with customers especially those customers’ business which is growing and profitable. Some of the customers prefer to stay on with their existing banks while some of them shift their banking facilities to other banks due to various types of reasons. Hence, the respective banks must find out how to meet the changing needs of the existing customers in order to retain them. Ndubisi (2005) and Pfeifer (2005) pointed out that the cost of serving a loyal customer is five to six times less than a new customer. This shows the importance of customer loyalty. No doubt, customers nowadays are getting more sophisticated, hence more demanding than ever in terms of service delivery and products being offered to them. They demand greater convenience and accessibility. It has become a
trend in all service industries in particular and other industries in general (Dervlin, 1990).

There is a short of more detail or empirical proof being established on the assessment of quality of service from the viewpoint of SME borrowing customers. Furthermore, a lot of SME Head/Managers in Sarawak in particular have rarely conducted research into the quality of the service provided by the bank.

1.3 OBJECTIVE OF THE STUDY

The objective of this study is to find out the SME borrowers’ expectations and perceptions of the service quality of commercial banks in Sibu.

The research is also to find out the gap (if any) between the expectations and perceptions.

1.4 BRIEF LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

1.4.1 Reason for using SERVQUAL instead of BSQ

Bahia and Nantel (2000) launched a study to find out a suitable method of assessment of perceived service quality in banking sector in Canada. They argued that the SERVQUAL method also received criticism. Thus, they came out with a new method of measuring the perceived service quality in banking sector. They came out with a
scale that was named as Bank Service Quality (BSQ). It constitutes 31 attributes under 6 dimensions such as reliability, access, price, effectiveness and assurance, range of service offered and accuracy. They argued that the attributes of BSQ are more reliable than dimensions of SERVQUAL. Glaveli et al., (2006) also mentioned that BSQ is more reliable than SERVQUAL. Stafford (1996) conducted a study to find out the main elements of BSQ. There were 7 attributes in measuring BSQ, as appended below:

1. Tellers - Adequate and reachable tellers
2. Reliability/honesty - It relies on the good bank rating and honest staff
3. ATMs - It refers to availability of the automated teller machines
4. Convenient - It refers to the convenient and easily accessible services
5. Rates and charges - Pricing of interest rate on bank products
6. Relationships - It refers to the individual relationship with the bank staffs
7. Bank atmosphere - The surrounding of banking hall and the staff attitudes

Angur et al., (1999) studied the applicability of another way of measuring service quality in banking industry in India. They did their study on the customers of 2 big banks by using SERVQUAL model to assess the overall quality of service. The final result was that reliability and responsibility were seem to be the most important attributes while the tangible and empathy attributes were less important and the
assurance is the least important. They made the conclusion that SERVQUAL is the best method of assessing the service quality in banking industry.

The suitability of the SERVQUAL method is well established in the banking industry. As alluded earlier, Angur et al., (1999) stated that SERVQUAL is the best method of assessing service quality in the banking industry in developing nations. Most of the researchers use the SERVQUAL method or the modified SERVQUAL method in banking industry.

From the above discussion, it can be concluded that SERVQUAL is still applicable/suitable as a measurement tool to assess the service quality in banking industry.

1.4.2 About SERVQUAL model

The theory is based on total quality management developed by the American Marketing Parra off Raman (A. Parasuraman), to Special Han Manle (Zeithaml) and White Switzerland (Berry). It is a new service quality assessment system. The main objective of this theory is the assessment of the level of perceived service by users and their expectations.

Figure 1.1 and 1.2 below shown the gap model of SERVQUAL instruments developed by Parasuraman, Zeithaml and Berry, 1991.

The illustrations are shown in Figure 1.1 and Figure 1.2 below :-
Figure 1.1: SERVQUAL Model

SERVQUAL Model

CONSUMER

Word of mouth Communications

Personal Needs

Past Experience

Expected Service

GAP 5

Perceived Service

What the Customer Gets

External Communications to Customers

MARKETER

The Specification of the Service

GAP 1

GAP 3

GAP 4

GAP 2

The Intended Service.

Source: (Parasuraman et al., 1985, 1988)