The Impact of Employee Performance on Service Quality

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Abstract
The major aim of the research paper is to measure the impact of employee performance on service quality in commercial banks. Primary data has been collected from the bank employees in Manmunai North and Kattankudy divisional secretariat areas in Batticaloa District. Stratified random sampling was used to obtain 225 responses from employees. The collected data were used to test the model using regression methodology. The results suggest that employee performance have strong positive relationship with service quality. Further results imply that employee performance has high impact on service quality of commercial banks in Batticaloa district (Manmunai North and Kattankudy DS divisions). Implications of this research are discussed.

Keywords: Employee performance, Service Quality

Introduction

The increased size and importance of service sector have made a path for increased service related studies. Due to globalization, the services are provided regionally, nationally and globally and thus, have taken the large portion of organizations’ income sources. According to Peng and Wang (2006), organizations nowadays have changed their strategic goal towards customer retention as they need to maintain a long-term relationship with them for their long-term survival. The organizations should measure and adjust the quality of their service they provide in order to maintain long term relationships with customers. Berry and Parasuraman (1997) also confirmed this by stating “service organizations are continuously endeavoring their quality of service, as it is of paramount importance to them”. In addition to the long-term relationship with customers, the service organizations use service quality as a competitive weapon to gain comparative advantages in the market as the preferential way to differentiate them from other competitors is through quality of service (Valarie et al., 2006). Employees working in a service organization and especially, employees working in banks have repeated contacts with the customers. These employees act
as representatives of both the banks and their products or services (Peters and Elham, 2008). The customers judge the quality of the bank service based on how the employee renders service to them. Therefore, employees may give either a positive or negative picture of their banks to the customers. As the employees are the key people in determining whether a customer would come again or go to another bank, banks nowadays give more importance to the performance of employees than anything else in determining their service quality.

Problem Statement

After the civil war has come to an end in 2009 in Sri Lanka, more and more private commercial banks and state banks have opened their branches in Batticaloa district to increase their market share and customers. Therefore banks implement various approaches to differentiate them from the competitors but at last the general offering to the public is averagely similar. According to Gronroos (2001: 134), “that almost any retailing bank can provide an individual with retailing services, but not every bank manages to treat customers in a way that they are pleased with.” Consequently, banks try to differentiate themselves from their competitors by providing a superior service quality than their rivals, and hence the service becomes the source of their competitive advantage. The quality of service in organizations is affected by several factors such as productivity (Serdar et al., 2014), job satisfaction, organizational identification (Nwamaka et al., 2012), management information systems, employee performance (Vannirajan & Manimaran, 2009) and employee empowerment (Peters and Elham, 2008). Among the above mentioned factors, employee performance can be expected as the most influential factor on service quality. Because, the characteristics of service are intangibility, perishability and heterogeneous, and thus it has become a challenge to banks to produce and deliver the service at the same time. Further, due to these characteristics, banks cannot check the samples before delivering the service to customers, like what is done in manufacturing industries. As a result, employees become the face and voice of the banks. Customers’ perceptions, behaviors and thoughts depend on how the employee performs his work. This is one of the arguments for employee performance since the employees act as an interface between the customers and the banks.
Further, empirical evidence confirms that, to the degree employees are capable of delivering high-quality performance, customers are more likely to make positive evaluations of service quality of banks, experience higher satisfaction, and have a tendency to visit the bank again (e.g., Borucki and Burke, 1999; Bowen, Siehl, and Schneider, 1989). Therefore, it is important to understand the impact of employee performance on service quality of the banks.

This study addresses this as an issue for investigating the impact of employee performance on service quality, thus questioning in general:

“Whether employee performance has positive impact on service quality?”

**Literature Review**

**Service Quality**

In current competitive business world, consumers are more responsive to alternatives in service offering and they started to give more importance to standards of service. As a result, their expectations towards service quality rise (Vannirajan and Manimaran, 2009). Even though services are seen as the core of economic activities in the business world, studies related to service especially with regard to managers and employees are recent. Service marketing studies was divided into three phases by Marshall Venkatesan and Schmalensee (1985) as exploratory phase, discovery phase, and consolidation phase. Service quality studies emerged from third phase in the 1980s when service researches and quality researches came together to investigate service quality.

According to Narasimhaiah Gorla, Toni M. Somers and Betty Wong (2010), service quality can be related to the degree of consistency between customers’ expectations for service and their actual perceptions of service provided by the employees. Similarly, Reeves and Bednar (1994) define the service quality as the degree to which a service satisfies the expectations of customers. These customers’ expectations and the perceptions are not based on a single factor. Rather they evaluate the service quality based on several factors such as technical outcomes offered, the process by which the outcomes are offered and the physical appearance of the environment (Brady & Cronin, 2003; Rust & Oliver, 2006).
Banks perform a significant and active role in the economic and financial development of a nation. Banks contributes to the growth of several sectors in an economy through their effective banking systems. However, as the banks nowadays face a huge number of challenges in the global scenario, it is important for them to better understand the dynamic needs of the customers and to serve them in the most possible and attractive manner than the competitors do (Malhotra & Mukherjee, 2004).

Several studies were used to find out the importance of service quality in banks. There are several benefits for banks by providing a good service quality such as retaining existing customers, attracting new customers, minimizing the cost, building and developing corporate image, positive word-of-mouth popularity, and increased profitability (Berry, Bennet and Brown, 1989; Cronin, Brady and Hult, 2000; Kang & James, 2004; Rust & Zahorik, 1993; Yoon & Suh, 2004).

Employee Performance

Employee performance is meant by the extent to which employees of an organization performs the duty assigned to them using efficient resources, especially on the role of decision making (Vannirajan and Manimaran, 2009). In general, achievement of organizational goals are under the control of individual employees, particularly it depends on their performance (Campbell, McCloy, Oppler and Sager, 1993). In service sector organizations, customers play an important role in defining the employee performance (Bowen & Waldman, 1999). It is because of that service employees have the direct interaction with customers while delivering the service and they represent the organization to its customers (Solomon, Suprenant, Czepiel, &Gutman, 1985).

According to Pratyush and Berg (2003), employee performance can be measured by speed of task completion, decision confidence, ability to make time-to-time decision, quality of decision, decision effectiveness, and viability of decisions. Later in another study by Vannirajan and Manimaran (2009), the same indicators were utilized to study the employee performance in banking sector.

Conceptual Framework

Based on the literature and the study by both Vannirajan and Manimaran (2009) and, Pratyush and Berg (2003) in particular, this study conceptualizes the
following framework in relation to the relationship between employee performance and service quality as shown in Figure 1.

Figure 1: Conceptual Framework

Developing performance standards clearly on customer expectations inspires employees’ engagement in behaviors in achieving expected customer outcomes (Bowen & Waldman, 1999). In this study employee performance is defined as the employees’ behaviors of serving and helping customers using organizational resources. According to Hui Liao and Aichia Chuang (2004), they believe that the performance of each and every individual will form a collective organizational performance and would increase the organizational effectiveness that can be measured by service quality from the customers’ perception, customer satisfaction, and customer loyalty. This study defines service quality as meeting the needs and expectations of the customer. Several previous researches have founded out the there is a significant relationship between employee performance and service quality (e.g. Vannirajan and Manimaran, 2009; Pratyush and Berg, 2003). Therefore the following hypothesis has been developed for this study.

\[ H_1: \text{There is a positive relationship between employee performance and service quality of commercial banks in Batticaloa district.} \]

Research Methodology

The study was conducted among the employees of commercial banks in Manmunai North and Kattankudy Divisional Secretariat areas of Batticaloa district. A sample of 225 employees was chosen, who worked in 23 branches. The technique of stratified random sampling was used for the study. The study was based on the primary data collected by administering a questionnaire on the sample.
The questionnaire was developed for the study purpose by adopting the research questionnaire developed by Vannirajan & Manimaran (2009). The opinions of the respondents with regard to each statement were evaluated on a five-point Likert scale ranging from ‘strongly disagree’ to ‘strongly agree’.

Methods of Data Analysis and Evaluation

Table 1: Decision Criteria for Univariate Analysis

<table>
<thead>
<tr>
<th>Decision Criteria</th>
<th>Decision Attribute</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0 ≤ Xᵢ &lt; 2.5</td>
<td>Low Level</td>
</tr>
<tr>
<td>2.5 ≤ Xᵢ &lt; 3.5</td>
<td>Moderate Level</td>
</tr>
<tr>
<td>3.5 ≤ Xᵢ ≤ 5.0</td>
<td>High Level</td>
</tr>
</tbody>
</table>

Source: Sajiththa and Ragel (2014)

Univariate Analysis

Univariate analysis is appropriate for any single variable to explore individual qualities of its data. This analysis was used to identify the level of each single variable of this study. The following criteria were used to evaluate the results.

Bivariate Analysis

Bivariate analysis is used to know how one variable is related to another. Further, it is used to test the hypothesis of association between two study variables, in this case, the association between employee performance and service quality. The below table gives the decision criteria for bivariate analysis (no correlation between two variables are implied if the range of r is between -0.1 and 0.1).

Table 2: Decision Criteria for Bivariate Analysis

<table>
<thead>
<tr>
<th>Range</th>
<th>Decision attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>r=0.1 to 0.29 or r = -0.1 to -0.29</td>
<td>Low level of impact</td>
</tr>
<tr>
<td>r=0.3 to 0.49 or r = -0.3 to -0.49</td>
<td>Medium level of impact</td>
</tr>
<tr>
<td>r=0.5 to 1.00 or r = -0.5 to -1.00</td>
<td>High level of impact</td>
</tr>
</tbody>
</table>

Source: Sekaran(2000)

Simple Regression Analysis

In order to assess the impact of employee performance on service quality, the simple regression model was used. The fitted regression model was:

SQ = β₀ + β₁EP
where,

SQ : Service Quality
EP : Employee Performance

Data Analysis

Levels of Employee Performance and Service Quality Dimensions

Descriptive analysis was carried out on the responses of six indicators proposed by Pratyush and Berg (2003) to find out the level of employee performance. Similarly, the same analysis was performed on the responses of the 24-item service quality scales proposed by Zeithaml, Parasuraman and Berry’s (1990) to find out the level of service quality. Service quality is evaluated with the help of five dimensions: Tangibility, Reliability, Responsiveness, Assurance and Empathy. Table 3 indicates the average values of the indicators of employee performance and table 4 indicates the average values of the scales for each dimension of service quality.

Table 3: Level of employee performance variable

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speed of completion</td>
<td>4.03</td>
<td>0.818</td>
</tr>
<tr>
<td>Decision confidence</td>
<td>3.85</td>
<td>0.813</td>
</tr>
<tr>
<td>Time-to-time decision</td>
<td>3.96</td>
<td>0.795</td>
</tr>
<tr>
<td>Quality of decision</td>
<td>3.89</td>
<td>0.783</td>
</tr>
<tr>
<td>Decision effectiveness</td>
<td>3.94</td>
<td>0.808</td>
</tr>
<tr>
<td>Viability of decisions</td>
<td>3.88</td>
<td>0.767</td>
</tr>
</tbody>
</table>

Table 4: Level of service quality variable

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Indicators</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangibility</td>
<td>Attractive bank premises</td>
<td>3.93</td>
<td>0.913</td>
</tr>
<tr>
<td></td>
<td>Modern and updated equipment</td>
<td>3.91</td>
<td>0.802</td>
</tr>
<tr>
<td></td>
<td>Employees’ neat and professional appearance</td>
<td>4.12</td>
<td>0.731</td>
</tr>
<tr>
<td></td>
<td>Complete information of attractive pamphlets</td>
<td>4.09</td>
<td>0.741</td>
</tr>
<tr>
<td></td>
<td>Clear bank statements</td>
<td>4.18</td>
<td>0.766</td>
</tr>
<tr>
<td>Reliability</td>
<td>Fulfilling promise to customers on time</td>
<td>4.06</td>
<td>0.717</td>
</tr>
<tr>
<td></td>
<td>Services at faster rate</td>
<td>3.95</td>
<td>0.783</td>
</tr>
<tr>
<td></td>
<td>Adequate services at the first time</td>
<td>3.98</td>
<td>0.785</td>
</tr>
<tr>
<td></td>
<td>Correct record keeping</td>
<td>3.97</td>
<td>0.784</td>
</tr>
<tr>
<td></td>
<td>Up dated Records</td>
<td>4.09</td>
<td>0.805</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>Informing customers about when the service will be concluded</td>
<td>4.09</td>
<td>0.710</td>
</tr>
</tbody>
</table>
The summary of the four dimensions of service quality as well as the overall score of employee performance and service quality are depicted in Table 5.

Table 5: Summary Measures of Employee Performance and Service Quality

<table>
<thead>
<tr>
<th>Variables/Dimensions</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangibility</td>
<td>4.05</td>
<td>0.635</td>
</tr>
<tr>
<td>Reliability</td>
<td>4.01</td>
<td>0.634</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>4.15</td>
<td>0.607</td>
</tr>
<tr>
<td>Assurance</td>
<td>4.11</td>
<td>0.663</td>
</tr>
<tr>
<td>Empathy</td>
<td>4.15</td>
<td>0.574</td>
</tr>
<tr>
<td>Employee Performance</td>
<td>3.93</td>
<td>0.630</td>
</tr>
<tr>
<td>Service Quality</td>
<td>4.09</td>
<td>0.545</td>
</tr>
</tbody>
</table>

Correlation Analysis

Pearson (r) correlation coefficient was computed to test the direction and strength of relationships that exist among the study variables. Table 6 below presents the results of correlation analysis. Further it has been revealed that employee performance has strong positive relationship with all dimensions of service quality.

Table 6: Correlation between Employee Performance and Service Quality

<table>
<thead>
<tr>
<th>Variables/Dimensions</th>
<th>Employee Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangibility</td>
<td>0.583**</td>
</tr>
<tr>
<td>Reliability</td>
<td>0.623**</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>0.661**</td>
</tr>
<tr>
<td>Assurance</td>
<td>0.595**</td>
</tr>
<tr>
<td>Empathy</td>
<td>0.527**</td>
</tr>
</tbody>
</table>
Service Quality 0.684**

**Correlation is significant at the 0.01 level (2-tailed)

Simple Regression Analysis

The results from the simple regression analysis are shown in the table below.

Table 7: Impact of Employee Performance on Service Quality

<table>
<thead>
<tr>
<th>Model Summary</th>
<th>R²</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ANOVA</td>
<td>F</td>
<td>196.515</td>
</tr>
<tr>
<td></td>
<td>Sig.</td>
<td>0.000</td>
</tr>
<tr>
<td>Coefficients</td>
<td>Constant</td>
<td>1.996</td>
</tr>
<tr>
<td></td>
<td>Employee Performance</td>
<td>0.544</td>
</tr>
</tbody>
</table>

Results and Discussion

Level of Employee Performance and Service Quality

Employee performance (independent variable) is measured by six indicators. Employee performance has a higher level of attribute (mean value = 3.93). Also, all indicators of employee performance have higher level of attribute (mean values of speed of completion, decision confidence, time-to-time decision, quality of decision, decision effectiveness, and viability of decision are 4.03, 3.85, 3.96, 3.89, 3.94, and 3.88, respectively) (Table 3). Among these indicators, speed of completion has comparatively higher level of attribute, and decision confidence has lower level of attribute.

Similarly, service quality (dependent variable) is measured using five dimensions: tangibility, reliability, responsiveness, assurance, and empathy. All the dimensions of service quality have a higher level of attribute (mean values of tangibility, reliability, responsiveness, assurance, and empathy are 4.05, 4.01, 4.15, 4.11, and 4.15, respectively) (Table 5). Among these dimensions, responsiveness, assurance, and empathy have a comparatively higher level of attributes, while tangibility and reliability have a lower level of attribute.

Tangibility is measured by five indicators and has a higher level of attribute (mean value = 4.05). Also, all indicators of tangibility have higher level of attribute (mean values of attractive bank premises, modern and updated equipment,
employees’ neat and professional appearance, complete information of attractive pamphlets, and clear bank
statements are 3.93, 3.91, 4.12, 4.09, and 4.18, respectively) (Table 4). Among these indicators, attractive bank premises, and
modern and updated equipment have comparatively low level of attributes than other indicators.

Reliability is measured by five indicators and has a higher level of attribute (mean value = 4.01). Also, all indicators of
reliability have higher level of attribute (mean values of fulfilling promise to customers on time, services at faster rate,
adequate services at the first time, correct record keeping, and up dated records are 4.06, 3.95, 3.98, 3.97, and 4.09,
respectively) (Table 4). Among these indicators, services at faster rate, adequate services at the first time, and correct
record keeping have comparatively low level of attributes than other indicators.

Responsiveness is measured by five indicators and has a higher level of attribute (mean value = 4.15). Also, all indicators of
responsiveness have higher level of attribute (mean values of informing customers about when the service will be concluded,
responding to customers’ request, willingness to serve, readiness to respond, and timely bank
statements are 4.09, 4.20, 4.22, 4.08, and 4.14, respectively) (Table 4).

Assurance is measured by four indicators and has a higher level of attribute (mean value = 4.11). Also, all indicators of
assurance have higher level of attribute (mean values of feeling of safety and security, trustworthy and confidence,
consistency in courtesy, and knowledge about the problem are 4.27, 4.03, 4.12, and 4.01, respectively) (Table 4).

Empathy is measured by five indicators and has a higher level of attribute (mean value = 4.15). Also, all indicators of
empathy have higher level of attribute (mean values of individual attention, convenient business hours, having the
customer’s best interest at heart, understanding specific needs, and personalized service are 4.16, 4.21, 4.13, 4.14, and 4.08,
respectively) (Table 4).

**Relationship between Employee Performance and Service Quality**

It is observed from Table 6 that correlation is significant at 0.01 level (2-tailed). The R-value between employee performance
and service quality is 0.684. This value fall in the range of r = 0.5 to 1.0 or r = −0.5 to −1.0 as per the decision criteria for
correlation analysis (see table 2). This indicates that there is a strong positive
correlation between employee performance and service quality.

**Impact of Employee Performance on Service Quality**

Simple regression analysis shows that employee performance significantly contributes to service quality. According to the analysis 46.8% variance in service quality is explained by employee performance as represented by $r^2$ value. The regression model for service quality can be written as follows:

$$\text{Service Quality} = 1.996 + 0.544\text{EP}$$

Here, the coefficient value of employee performance is significant at 0.05 significance level. It can be interpreted from the equation that when there is one unit increase in employee performance, service quality will change by 0.544 (see table 7).

**Conclusion, Recommendation and Implications**

**Conclusions**

During the 6 years of post war period, several banks have established their branches in Batticaloa district. Increase in the number of branches implies there is an increase in the level of competition among the banks. They tend to differentiate themselves by providing excellent service to customers and the service provision depends on the employees as they are the people who have to face the customers directly. Therefore it is essential to discover the impact of employee performance on service quality with respect to Mannunai North and Kattankudy divisional secretariat (DS) divisions where more banking transactions take place compared with other divisions.

The research problem of this study is to find out whether employee performance has positive impact on service quality and this problem has been addressed through the findings. It was implied that there is a strong positive relationship between employee performance and service quality. Further, employee performance accounts for 47% variation in service quality. The performance of employees in commercial banks in Batticaloa district is at high level and the service quality of those banks also is at high level. Among the service quality dimensions, tangibility and reliability are at relatively low level.

**Recommendations**

Among the dimensions of employee performance, decision confidence, time-to-time decision, quality of decision, decision effectiveness, and viability of decision need to be focused. The senior management of banks needs to conduct
training programs and educational activities to enable the employees to make effective decisions with sufficient confidence. Employees should feel that utilization of the relevant resources in banks enables them to make decisions with confidence. They should be given proper training to execute decisions as intended, to put right amount of efforts to execute a decision and to execute decisions with speed and quality. Further, they should be trained to take viable decisions using the systems of the banks.

At overall, service quality of commercial banks in Batticaloa district is at high level. To maintain this high level of service quality, some improvements have to be made by the banks. Bank must have attractive premises which create a favorable and pleasant environment for customers. Secondly, banks should have modern and updated equipment for handling customers’ queries. The above two improvement are related to tangibility dimension of service quality. When it comes to reliability, employees should be very speed at solving a customer’s problem, they have to provide adequate service right at the first time, and they have to keep error free records of the customers. Even though no essential improvements are needed for responsiveness, assurance and empathy of employees in the commercial banks, those aspects also have to be monitored for chances of improvements.

**Implications**

The purpose of this study is to find out whether employee performance positively impacts the service quality of commercial banks in Batticaloa district. The data was gathered from both state and private banks and the findings were derived from the combined data as a whole. Several previous studies have stated that there are differences in the employee performance measures between state and private commercial banks (Dinesh and Ragel, 2015). Therefore the differences in service quality and the differences in study variables across demographic characteristics of the employees can be analysed in future studies to contribute to the existing literature. The researchers of this study found in an early study that Management Information System (MIS) has a positive impact on employee performance. This study reveals that employee performance has a positive impact on service quality. Therefore a future study incorporating all these variables can be conducted to get deep understanding about the relationships between and among variables. Even
though the service is at high level in the banks, there is a general question whether the customers are satisfied by the service quality. Therefore, the customer satisfaction that is caused by the service quality can be analysed further. The present study analysed the impact of employee performance on service quality in banking industry. It may be extended to various other service industries which rely on employee performance extensively.

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