

Service Differentiation Intention and Firm Performance; with Special Reference to Banking Industry in Sri Lanka

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Cost leadership and differentiation are the two generic strategies that business firms exploit to get the competitive advantage in the market. Between these two strategies this study focused on identifying the differentiation intention and its relationship with firm performance of the banking industry in Sri Lanka. There are contradictory ideas regarding the relationship between these two variables among the scholars who conducted their studies attached to this field. Service marketing mix including product, price, place, promotion, people, process and physical environment was taken as the service differentiation indicator. To measure the firm performance, each firm's annual profit before taxes was taken. In order to reach the objectives of the study, all thirty three (33) licensed banks in Sri Lanka were taken as the sample. A specifically designed questionnaire was administered to collect primary data from the managers and for the secondary data annual reports of the selected banks were administered. To analyze the collected data simple and multiple linear regression analysis were exploited. Research findings show that there is a strong positive relationship between service differentiation intention and firm performance. Further, out of the service marketing mix elements people element is the most influential element to the firm performance. Product and physical environment elements have come as second and third elements respectively. Firms intend to harvest the competitive advantage should consider planning and implementing the strategies focusing on all the other elements in the service marketing mix. Almost all the firms have virtually identical products and prices it is worth to follow more customer centric strategies which address the other elements in the service marketing mix. These consumer-focused approaches can improve revenue by attracting new customers and increasing the bank's share of existing customers.

Keywords: Differentiation intention, Firm performance, Service marketing mix, Licensed commercial banks