

The Sensitivity of Service Quality on Customers towards Overall Satisfaction

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ABSTRACT: *Customer satisfaction is the key to the profitability of retail banking and it implies the retention of customers for the long term, which is cheaper than attracting new customers. In the current scenario of retail banking particularly with banks becoming larger, the closure of branches and the advent of internet banking, the question arises whether the customers are satisfied or not satisfied and what are the elements of retail banking which lead to the satisfaction or dissatisfaction of customers. The knowledge of current levels of satisfaction and, in particular, the key determinants of satisfaction benefit those in the industry allowing them to focus and build upon key areas that lead to highly satisfied customers. It highlights that in-branch factors particularly staff, branch location and convenience are the most significant factors influencing customer satisfaction in retail banking.*

Key terms: *Customer satisfaction, retail banking, Internet banking, Customer retention, In-House Branch Factors.*

I. Introduction

The past two decades have witnessed increasing competitive pressures for retail banks. This prompted a flurry of activities by banks to consolidate their positions; mergers and the adoption of technology were completed in tandem with rising consumer demands with the objective of improving services. However, a disturbing paradox in banking industry was the amount of reported customer dissatisfaction with banks despite these efforts (Johnston, 1997). Since then very few studies have effectively examined the issue of customer satisfaction in retail banking.

In the year 2000, the Cruickshank Report was unveiled (Cruickshank, 2000). The Report categorically stated that service quality was low in retail banking, implying low customer satisfaction. Arising partly from the findings of the Cruickshank Report and the fact that a study on customer satisfaction in the retail banking sector is scant, An accurate identification of the determinants of customer satisfaction, its importance and relative influence will allow retail bankers to set priorities of where and what may be improved to enhance customer satisfaction in such a way that their outcomes; behavioral intentions or behavior such as repeat purchasing (cross – selling of banking products and services) and word of mouth is positively influenced.

The banking market for retail banking products is one of the largest. The industry is undergoing major changes due to deregulation, and the development of technology, which have allowed new competitors into a relatively conservative industry (Gardener, Howcroft and Williams, 1999). New competitors are able to operate with lower costs due to lesser branch networks and dependence on new cheaper delivery methods such as the Internet and telephone banking (Gardener, et al 1999). Customers of banking services are also more demanding in terms of delivery mechanisms and tailored product offerings highlighting amplified demand for increased convenience and accessibility, a trend, which affects not only the financial services industry but other services as well. (Devlin, 1995)

Although the Cruickshank report on the commercial banking industry was severely criticised due to its ambiguity and lack of empirical investigation, it however posed serious questions of whether the current retail banking industry is serving its customers well. (Wolgast, 2001). In short, superior service offering and satisfaction derived from services enhance the customer experience and result in improvements in loyalty, retention and subsequently business performance. Studies have concluded that:

1. Service quality is one of the effective means in building a competitive position in the service industry. (Lewis, 1993)

2. Investments in service quality, customer satisfaction and customer relationships leads to profitability and market share (Rust and Zahorik, 1993)
3. High quality service and customer satisfaction often results in more repeat purchases and market share improvements (Buzzel and Gale, 1997)
4. Customer satisfaction leads to customer loyalty and this leads to profitability (Hallowell, 1996)
5. The costs of customer acquisition are much higher than the costs of retention (Reichheld and Sasser, 1990).

Service quality is accepted as one of the elements of customer satisfaction (Parasuraman, Zeithaml and Berry, 1994). But other factors in the service sector such as price, product quality, as well as specific factors such as situational and personal factors have an impact on customer satisfaction (Zeithaml and Bitner, 2000). Customer satisfaction is also linked to increased profitability, loyalty and retention (Rust et al, 1993; Hallowell, 1996). Therefore, the logical conclusion would be to increase satisfaction in order to induce customers to repurchase services from the provider (Bou-llusar, Camison-Zornoza and Escrig-tena, 2001). Satisfaction is also an antecedent to loyalty in attitude and in behaviour (Rust and Zahorik, 1993; Yi, 1990; Dabholkar, 2000).

II. RELEVANT LITERATURE

Banking is a service that encapsulates all the characteristics of services, directed towards the customer's money and its management. A membership relationship is entailed in this industry due to its continuous nature. Banking is also high in credence qualities meaning that it cannot be evaluated confidently even immediately after receipt of the good due to customer ignorance or lack of knowledge. In addition, an extended period of time may be required in this industry for a fully informed evaluation (Devlin, 2001). Hence, customer satisfaction in banking is both difficult to measure and ascertain.

III. Customer Satisfaction

Customer satisfaction is a judgment by the customer, post purchase. The most popular view of customer satisfaction in academia is that customer satisfaction is the judgment borne out of the comparison of pre-purchase expectations with post purchase evaluation of the product or service experience (Oliver, 1997). Customer satisfaction can result from any dimension (whether it may or may not be quality related) and its judgments may arise from non-quality issues (e.g. needs, equity, perceptions of 'fairness') and require experience with the service provider (Taylor et al, 1994; Howard and Sheth, 1969).

Strong linkages have been apparent between service quality dimensions (for example speedy responses to enquiries) and overall customer satisfaction (Anderson and Sullivan, 1993). But much debate arises from whether customer satisfaction is an antecedent of service quality judgments (Bitner, 1990; Parasuraman, et al, 1985) or the other way round (Anderson and Sullivan, 1993; Cronin and Taylor, 1992; Taylor et al, 1994).

The foundations of service quality may be viewed from two widely accepted perspectives – the SERVQUAL model and the Technical/Functional Quality Framework (Gronroos, 1983, 1990). SERVQUAL, offers five dimensions of service quality to be evaluated in any service setting; reliability, responsiveness, assurance, empathy, and tangibles (Parasuraman, et al, 1985), and it has been widely used in practice in its original and modified form (Levesque and McDougall, 1996). However, further research has illustrated that there are two overriding dimensions to service quality, the core or outcome aspects and the relational or process aspect of the service (Naser, Jamal and Khatib, 1999). While reliability is largely concerned with the service outcome, tangibles, responsiveness, assurance, and empathy are more concerned with the service process. Customers judge the accuracy and dependability (i.e., reliability) of the delivered service, but they judge the other dimensions as the service is being delivered. It was found that although reliability is the most important dimension in meeting customer expectations, the process dimensions (especially assurance, responsiveness, and empathy) are most important in exceeding customer expectations (Parasuraman et al, 1991).

Another perspective on service quality is the Technical/Functional Quality perspective originally conceptualized by Gronroos (1983). Technical quality refers to the quality of what is provided while functional quality (process quality) refers to the quality of how it is provided. Technical outcome quality involves the actual competence of the provider and the technical outcome of the product, while this is considered difficult to evaluate due to the lack of knowledge on the part of the consumer, functional quality (or process quality) is more easily judged. Functional quality refers to the delivery of the service. Its elements include items such as courtesy, confidence and attentiveness. These form the basis of the customer's evaluation of the service provided and provider. In banking, this would be judged through an evaluation of the personnel's efficiency and speed in dealing with problems as well as the opening or closing hours of the bank. Effectively, once technical quality has attained an acceptable level, functional quality becomes more imperative in determining the overall perception of the service (Gronroos, 1983). Due to the relative speed in which innovations in

products and other aspects of technical quality of the banking service may be replicated, this is highly indicative of the heightened importance of the functional aspects of the service.

In the final analysis, service quality cannot be separated from the concept of customer satisfaction. Further research has also identified other factors such as customer specific and situational factors as contributing to overall satisfaction (Zeithaml and Bitner, 2000).

The nature or characteristics of the service has been found to influence the relative importance of the drivers of customer satisfaction. For instance, where core service quality (technical qualities) is easier to evaluate it may be a more critical driver of customer satisfaction, on the other hand in services high in credence qualities, functional qualities is suggested as a more critical driver of customer satisfaction (Shemwell, Yavas and Bilgin, 1998). Therefore, elements of customer satisfaction, which may be more important in retail banking, are functional elements.

IV. Retail banking

Retail banking is banking in which banking institutions execute transactions directly with consumers, rather than corporations or other banks. Services offered include savings and transactional accounts, mortgages, personal loans, debit cards, and credit cards.

Commercial bank has two meanings:

Commercial bank is the term used for a normal bank to distinguish it from an investment bank. (After the great depression, the U.S. Congress required that banks only engage in banking activities, whereas investment banks were limited to capital markets activities. This separation is no longer mandatory.)

Commercial bank can also refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to normal individual members of the public (retail banking). It is the most successful department of banking.

Retail Banking services are also termed as Personal Banking services.

V. Online banking

Online banking (or Internet banking or E-banking) allows customers of a financial institution to conduct financial transactions on a secure website operated by the institution, which can be a retail or virtual bank, credit union or building society. It may include of any transactions related to online usage. To access a financial institution's online banking facility, a customer having personal Internet access must register with the institution for the service, and set up some password (under various names) for customer verification. The password for online banking is normally not the same as for telephone banking. Financial institutions now routinely allocate customer numbers (also under various names), whether or not customers intend to access their online banking facility. Customer numbers are normally not the same as account numbers, because a number of accounts can be linked to the one customer number. The customer will link to the customer number any of those accounts which the customer controls, which may be cheque, savings, loan, credit card and other accounts. To access online banking, the customer would go to the financial institution's website, and enter the online banking facility using the customer number and password. Some financial institutions have set up additional security steps for access, but there is no consistency to the approach adopted online banking facilities offered by various financial institutions have many features and capabilities in common.

VI. Customer retention

Customer Retention is the activity that a selling organization undertakes in order to reduce customer defections. Successful customer retention starts with the first contact an organization has with a customer and continues throughout the entire lifetime of a relationship. A company's ability to attract and retain new customers, is not only related to its product or services, but strongly related to the way it services its existing customers and the reputation it creates within and across the marketplace. Customer retention is more than giving the customer what they expect, it's about exceeding their expectations so that they become loyal advocates for your brand. Creating customer loyalty puts 'customer value rather than maximizing profits and shareholder value at the center of business strategy'. The key differentiator in a competitive environment is more often than not the delivery of a consistently high standard of customer service. Customer retention has a direct impact on profitability. Research by John Fleming and Jim Asplund indicates that engaged customers generate 1.7 times more revenue than normal customers, while having engaged employees and engaged customers returns a revenue gain of 3.4 times the norm. Customer lifetime value enables an organization to calculate the net present value of the profit an organization will realize on a customer over a given period of time. In other words, customer lifetime value is the predicted sum total of all future revenues (or profits) that a particular customer will generate for a business.^[2] Retention Rate is the percentage of the total number of customers retained in context to the customers that approached for cancellation.

Published standards exist to help organizations deliver process driven customer satisfaction in order to increase the lifespan of a customer. The International Customer Service Institute (TICSI) has released The International Standard for Service Excellence (TISSE 2012). TISSE 2012 enables organizations to focus their attention on delivering excellence in the management of customer service, whilst at the same time providing recognition of success through a 3rd Party certification scheme. TISSE 2012 focuses an organization's attention on delivering increased customer satisfaction by helping the organization through a Service Quality Model. TISSE Service Quality Model uses the 5 P's - Policy, Processes, People, Premises, Product/Service, as well as performance measurement. The implementation of a customer service standard leads to improved customer service practices, underlying operating procedures and eventually, higher levels of customer satisfaction, which in turn increases customer loyalty and customer retention.

Drivers of Success In-House Branch Factors

Location, Self-Services, Branch Design, Staff competence, Brand at the branch, Network asset management

In-Stores Branches – The critical success factors

VII. In-House Branch Factors

A branch, banking center or financial center is a retail location where a bank, credit union, or other financial institution (and by extension, brokerage firms) offers a wide array of face-to-face and automated services to its customers. During the 3rd century banks in Persia (now Iran) and in other territories started to issue letters of credit known as Sakks, basically checks in today's language that could be traded in cooperative houses or offices throughout the Persian territories. In the period from 1100-1300 banking started to expand across Europe and banks began opening 'branches' in remote, foreign locations to support international trade. In 1327, Avignon in France had 43 branches of Italian banking houses alone. The practice of opening satellite branches was popularized in the early 20th century by Amadeo Giannini, then head of the Bank of America. Historically, branches were housed in imposing buildings, often in a neoclassical architecture style. Today, branches may also take the form of smaller offices within a larger complex, such as a shopping mall. Traditionally, the branch was the only channel of access to a financial institution's services. Services provided by a branch include cash withdrawals and deposits from a demand account with a bank teller, financial advice through a specialist, safe deposit box rentals, bureau de change, insurance sales (where it is allowed by law), etc. In the early 21st century, features such as automated teller machines (ATM), telephone and online banking, allow customers to bank from remote locations and after business hours. This has caused financial institutions to reduce their branch business hours and to merge smaller branches into larger ones. Conversely, they converted some into mini-branches with only ATMs for cash withdrawal and depositing; computer terminals for online banking and cheque depositing machines. Some mini-branches may have one or no human staff with only telephone support. Some financial institutions, in an attempt to show a friendlier image, offer a boutique or coffeehouse-like environment in their branches, with sit-down counters, refreshments, interactive displays, music and playing areas for children. Some branches also have drive-through teller windows or ATM's. Other financial institutions reduce their costs and position their offerings by having no branches and are sometimes known as virtual banks. In-store branches are typically branches located in a retail space such as a grocery or discount store. They may be full service branches or limited service branches. They generally do not include a drive-through teller windows or safe deposit boxes. These branches have limited staff and typically include technology as a means to deliver banking services such as the use of automated teller machines, videoconferencing, and video banking systems. Given the challenges of branch banking today, there's a bunch of innovations taking place in respect to "Engagement Banking" within the branch property and it's clear that many banks feel the branch environment has to change to stimulate different activity in the branch. In BANK 2.0 I classify this need to change the engagement in this way. The core function of the branch moving forward will be about establishing the relationship with the customer at inception, and extending that relationship through an advisory sales process and excellent customer support systems. It is conceivable that all of the transactional elements within a branch will be moved to automated banking within electronic banking centres, automated branches, ATMs or the Internet within the next 10 years. What then is left? The face-to-face, value-add of a real, live human interaction." Competency-based human resources planning serves as a link between human resources management and the overall strategic plan of an organization. Competencies are defined as observable abilities, skills, knowledge, motivations or traits defined in terms of the behaviours needed for successful job performance. Competency-based management supports the integration of human resources planning with business planning by allowing organizations to assess the current human resource capacity based on their competencies against the capacity needed to achieve the vision, mission and business goals of the organization. Targeted human resource strategies, plans and programs to address gaps (e.g., hiring and staffing; learning; career development; succession management; etc.) are then designed, developed and implemented to close the gaps.



While competencies are not new to most organizations, what is new is their increased application across varied human resource functions (i.e., recruitment/selection; learning and development, performance management, career development and succession planning, human resource planning). Organizations are looking for new ways to acquire, manage and retain the precious talent needed to achieve their business goals. Properly designed, competencies translate the strategic vision and goals for the organization into behaviours or actions employees must display for the organization to be successful. Competency-based Management (CBM) standardizes and integrates all HR activities based on competencies that support organizational goals. CBM solutions typically provide input into and drive all aspects of employee career development. This allows organizations to improve productivity in most areas of human capital management human resources. CBM is typically referred to as "strategic" in that it attempts to link organizational planning to job execution. The role of CBM is to shape and guide employee behaviour from "hire to retire". CBM helps Talent acquisition, Performance Management and Learning Management Systems to be more effective by assessing employees' skills and competencies. CBM also facilitates gap discovery and suggests learning methods (on the job, literature or formal courses) to help improve employee effectiveness.

VIII. Conclusion

In the model of customer satisfaction developed by Parasuraman et al (1994) product quality, pricing and service were factors in the evaluation of services leading to customer satisfaction. Pricing factors were also indicated in Levesque's et al (1996) study, highlighting that bank charges and interest rates do determine the overall satisfaction of the customer. The future of the branch is about engagement. The old thinking that was based on getting customers into a branch to do a transaction and cross-selling them is no longer a viable model, because the branch provides no value-add for a transaction. Thus, if the branch is about an excellent, high-quality face-to-face interaction, we need to build for that. Open up the branches, hire new staff and put new systems in place designed to support the conversation with the customer. The high-counter old teller stations and staff who are versed in transactional banking, won't work in the bank world. Added fine-tuning of these elements for respective segments may be able to increase the overall satisfaction of customers in retail banking.

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