Service Quality Issues in Financial Services

Dr Prithwiraj Nath

Lecturer in Marketing, Nottingham University Business School

and

Professor James Devlin

Professor of Marketing, Nottingham University Business School

Table of contents

Address for Correspondence:

Dr Prithwiraj Nath, Lecturer in Marketing, Nottingham University Business School,

Jubilee Campus, Wollaton Road, Nottingham, NG8 1BB,

Telephone: 0115 846 8122

E Mail: prithwiraj.nath@nottingham.ac.uk

Abstract

Conceptualising and measuring service quality has always been a challenge for managers due to the fact that services are inherently intangible. Unlike physical products, they cannot be seen, touched, felt or taken for a test drive. Normally, services cannot be quality tested before they are used, or experienced by customers. These factors, along with the subjective nature of service assessment, increase the challenges associated with measuring service quality. The increasing adoption of internet and other electronic media as major channels used to interact with customers and deliver services has further complicated matters, as it means that it is imperative for managers to also understand what constitutes excellent service quality in an online context.

This report considers the intricacies of understanding service quality and how to measure it in a financial services context in both the offline and online environment. After considering the characteristics of services and the nature of service quality, it explores the "Gaps Model", which focuses on the difference between customer expectations and perceptions as a measure of service quality. Subsequently, SERVQUAL, a measurement tool which demystifies the abstract nature of service quality, is introduced and explained in detail. Insights afforded by the SERVQUAL model can be used by decision makers to answer questions such as how to benchmark quality of service delivery against the competition and what are the possible strategies available to an organisation to improve service delivery. Service quality levels may also need to be varied by segment, as different groups of customers may well have significantly different expectations. Providing all with an "average" level of service is unlikely to yield success. At the end of the report, a case study concerning the application of SERVQUAL to banking is used to illustrate the model. It should be noted that this report does not seek to deal with the related issues of customer satisfaction, loyalty and retention in any detail, as these will be covered in a sister report issued by the Financial Services Research Forum.

The nature and importance of services and service quality

Most economies are becoming more service-driven and many are increasingly dominated by economic activity which takes place in the service sector. Even for physical goods, the drive for ever more value to be delivered to customers to ensure effective differentiation means that the service and support associated with product provision and use is becoming ever more important. In financial services, the importance of delivering service quality which matches, or hopefully exceeds, customer expectations is beyond debate. Managers across the sector are striving to improve the customer experience and to do so they need to understand what customers expect of their services and purchase experiences, and how to build, manage and deliver superior service quality in line with such expectations. For any service firm, superior quality of service is one of the key contributors to business success. In the era of increasing competitiveness and complexity in many markets, “service quality” has the potential to be the ultimate differentiating factor and, thus, result in superior performance in terms of market share, customer loyalty, and improved return on investment (see Figure 1).

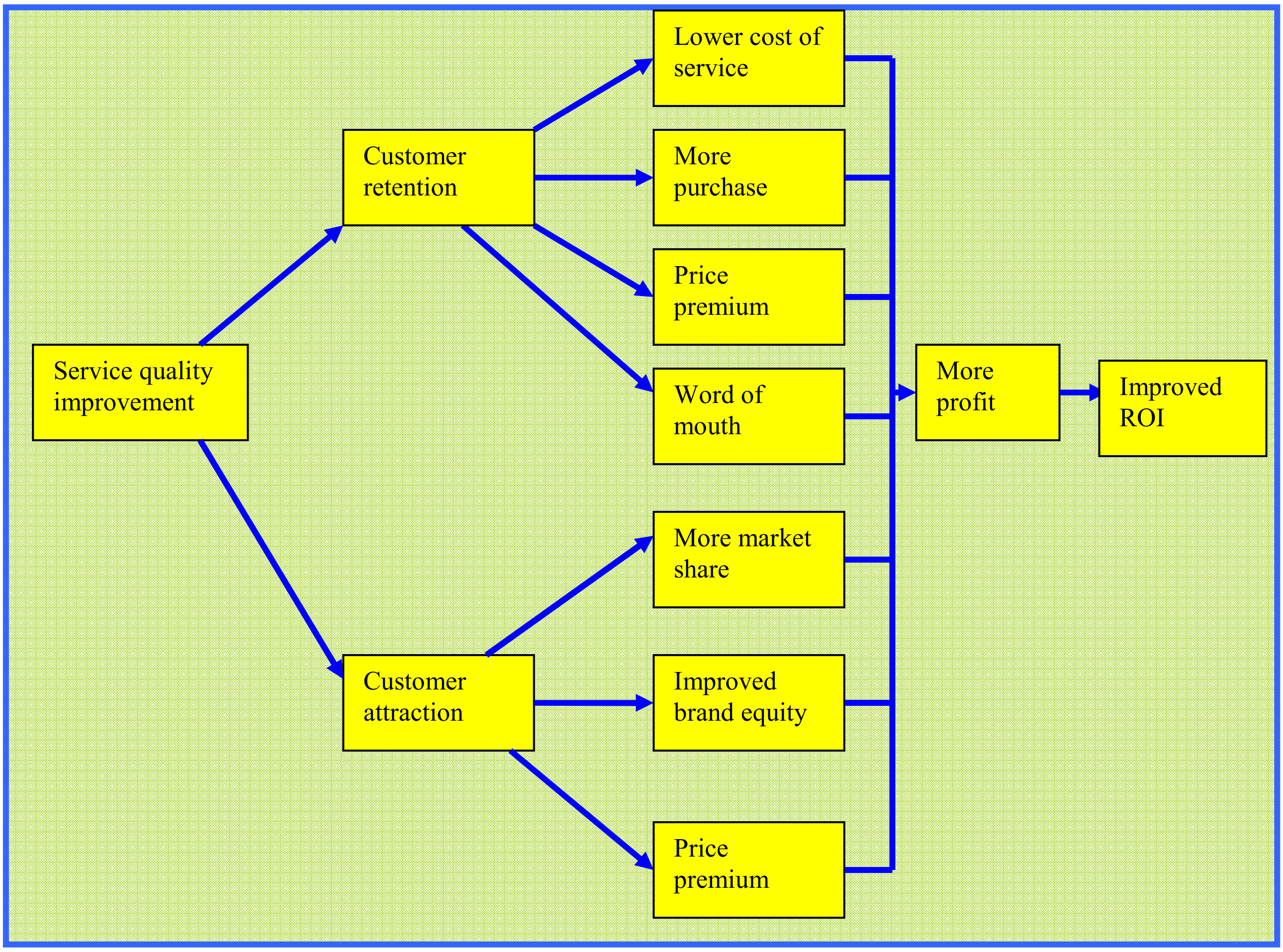
However, services are widely viewed as having certain key characteristics which mean that the marketing of services and achieving the desired level of service quality presents particular challenges to marketers. Services core attributes are deeds, acts and processes which cannot be seen, felt or touched. Services are to varying extents dominated by intangible attributes. Therefore, whereas the quality of a physical product can be characterised by how it conforms to the manufacturing specifications, service quality is more subjective and more difficult to specify and evaluate. Also, a physical product can be checked for defects as it comes off the production line and rejected if it is not up to the required standard. This is not the case for a service, not least due to other important characteristics of services; inseparability and heterogeneity[2]. Services are said to be inseparable as they are normally produced and consumed simultaneously with the consumer, or user, playing a significant part in the production process. For instance, when investment advice is rendered, the customer’s experience is partly dependant upon the information that he/she has provided and the rapport that has developed between the customer and the advisor during the service interaction. If there is a major service quality failure, it happens in “real time” and is impossible to correct before the customer experiences it. The service experience also has the potential to vary as a result of the customer, or advisor, having had a bad day or being in a hurry. This is the source of the increased variability or heterogeneity associated with services. Finally, services are characterised as extremely perishable in the main. Fifteen minutes of quiet time in a banking hall devoid of customers mid-morning cannot be boxed up, put on the shelf and taken down at lunchtime when the queues are stretching out of the door. An unpurchased seat on an aeroplane is lost to an airline the moment the check-in desk closes. Such services perish and can never be re-used. As a result, the matching of supply and demand and the pricing strategies that may help to do so are also particular challenges for services marketers. Failure to match supply and demand effectively may have huge revenue and profit implications, but also may adversely affect customers' assessments of service quality, for instance if they are forced to queue out of the door at lunchtime at their bank. The main characteristics of services and some associated challenges are presented in Table One.

Table 1: Service characteristics and marketing challenges[1]

Service characteristics	Marketing implications	Challenges for marketers
Intangible	Services are an act or deed that cannot be patented and have few search qualities	How to sustain differentiation of an intangible dominant offering. How to develop brand associations which help to re-assure consumers
Heterogeneous	There is a dependence on employee action and employee and consumer interaction and each consumer encounter is unique	How to guarantee a minimum level of service quality. How to recover poor service
Inseparable	Customers take part in production process	How to manage the service delivery process effectively
Perishability	Services cannot easily be stored for later use	How to employ differential pricing to match supply and demand and how to meet peak time demand given finite resources

Given the considerable challenges associated with services marketing, it is not surprising that service quality issues have consistently been considered crucial by academics and practitioners alike. For at least the past thirty years much thought has been given to conceptualisations and measurement of service quality and it is to such issues that attention now turns.

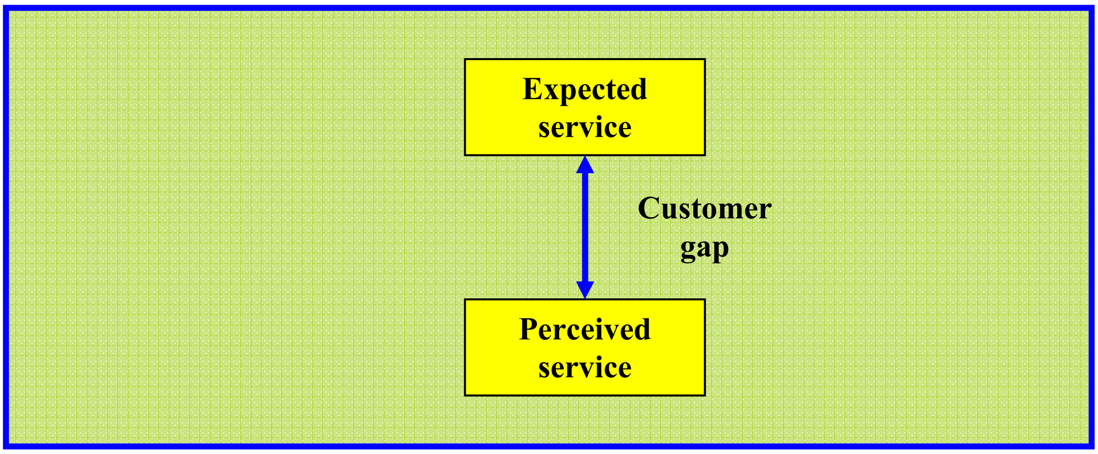
Figure 1: Return on Service Quality Improvement[1]



Service quality: Expectations versus perceptions and the "Gaps" model.

It is widely believed that customers compare *pre-consumption expectations* of a service organisation with their *post-consumption perceptions of performance*, and that customers' perception towards service quality is driven by any gap between expectations and performance. (see Figure 2). The smaller the gap; the better the perceived quality of perceived service and the higher the chance that a customer will remain loyal to the organisation.

Figure 2: Service Quality: The Customer Gap[1]



Given the importance of the gap between expectations and perceptions, it is perhaps not surprising that a model has been developed to explain why such a gap might occur and how said gap might be reduced. The Gaps model focuses on the "customer gap" between expectations and perceptions and introduces four provider gaps which may help explain the existence of a customer gap. These four gaps are explained by (see Table 3)[1]:

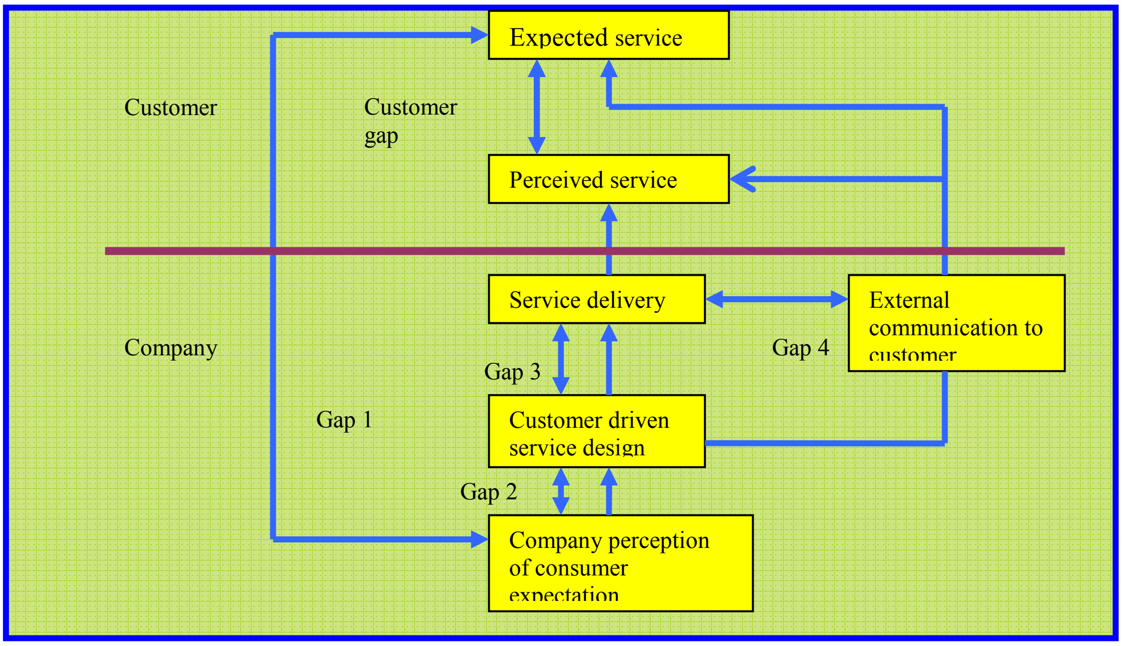
Gap 1: Lack of knowledge of customer needs and desires
Gap 2: Inadequate service standards
Gap 3: Inability to deliver to service standards
Gap 4: Delivery does not match promises made by the firm

If an organisation does not have an accurate and informed understanding of what customers expect in terms of service, then its chances of designing a service which meets those expectations are severely limited. Service will only measure up to expectations if by chance an organisation designs a service which will not disappoint. There is little point in an insurance company specifying its service standards to include a three week wait for a response to a claim if in reality customers will lose patience and complain after a week. The solution is to be market orientated and have an accurate insight into customer expectations. A company may have a reasonable insight into customer expectations, but may choose to ignore customer preferences and design an inferior service. This is the source of gap two; not designing the service according to consumer expectations. A gap of this nature may be due to a lack of commitment to service on the part of senior management, meaning that such considerations are not given priority in a companies marketing management. Even if gaps one and two are closed, service quality delivery may still not measure up to expectations. This may be due to gap 3, an inability to deliver to the standards specified. This is an extremely common failing in the service sector. Many companies have a reasonably accurate insight into customers' expectations and design a suitable service experience. However, they may consistently fail to deliver to such standards for various reasons. It may be that front line staff whom are responsible for delivering the service have not bought into the mission of delivering such service standards, or alternatively, may not be empowered to do so. Finally, there may be a gap between what customers are promised by the firm in promotional efforts and what they actually experience. This gap may result from a lack of internal communication between those making the promises and those responsible for delivering the service. It may also result from a firm adopting an unrealistic positioning strategy in the marketplace. Together, the four gaps outlined will provide an insight into why the gap between customer expectations and customer perceptions exists and what a company should do to eliminate such gaps.

Table 3: Gaps and their implications

Gaps	Marketing response
Gap 1	Get market oriented; know your customers, competitors
Gap 2	Develop increased senior management commitment to service quality
Gap 3	Empower your employees; adopt more of self-service technologies
Gap 4	Restructure your service positioning strategy; manage customer expectations
Customer gap	Listen to your customers; bridge the gaps 1, 2, 3, and 4

Figure 3: Gaps Model of Service Quality[2]



Service quality measurement

Broadly speaking, there are two streams of literature which address the definition and measurement of service quality. The first one comes from Europe, mainly Scandinavia and is often called the Nordic school of research[3]. The main proposition of this school is that the quality assessment of a service does not solely depend on the outcome but also on the service delivery process. The second stream comes from the American schools which adopted a quantitative approach in conceptualisation and measurement of service quality. Their biggest contribution is the development of a service quality measurement scale SERVQUAL to assess areas of service performance improvement and evaluate the impact of improvement efforts through industry benchmarking[4, 5, and 6].

The Nordic School: Technical and functional quality

According to the Nordic school, service quality can be broadly classified into technical quality (also called outcome quality) and functional quality (also called process quality)[7]. Technical quality depends on the professionalism and skills of the service provider to deliver the outcome required. Functional quality depends on such factors as the attitude and behaviour of the service provider during the service encounter, access, flexibility and reliability. For instance if a customer banks a cheque and the money passes into his or her account in the required period, then technical quality is acceptable. However, if the customer had to visit the bank three times before he/she found it open and then found the teller rude and unhelpful, then this is indicative of poor functional quality. The Nordic school also includes corporate image in their definition of service quality, as a positive image can reassure customers during a service encounter. Corporate image will largely be driven by these two aspects of service quality (see Table 2).

Table 2: Dimensions of service quality- The Nordic School

Technical quality	Functional quality	Image
Professionalism and skills	Attitudes and behaviour	Reputation and credibility
	Accessibility and flexibility	
	Reliability and trustworthiness	
	Recovery	

The American School: SERVQUAL

Based on extensive field research, the American school proposed a service quality measuring instrument called SERVQUAL[5, 6]. It is a scale which asks customers what they expect from excellent companies in any service sector and their perception towards the level of service delivered by a specific company in that sector. The difference in expectation (E) and perception (P) scores gives the measure of service quality (SQ). If perceived performance is higher than the expectations, then it signals the company is able to deliver high service quality, and the reverse indicates poor quality.

$$SQ = P - E$$

SERVQUAL is a generic tool to measure service quality across service industries. It consists of 22 service attributes grouped into five service quality dimensions (see Table 4). It has been applied in financial services industry across countries in a variety of contexts like banking[8], call centre[9], insurance and stockbrokerage[10].

The SERVQUAL approach can be applied to answer several questions such as[1]:

1. What is the quality score for each service attribute
2. What is the quality score along each of the five SERVQUAL dimension.
3. What is the overall quality score
4. What changes in quality scores are apparent over time using a customer panel.
5. How might we benchmark quality scores against competition.
6. What evidence is there of differences in quality scores across customer segments and to what extent are these differences attributable to different expectations levels.
7. What level of internal service quality (the quality of service rendered by accounts to sales department in the same company) is being delivered.

Table 4: Dimensions of service quality- The American School: SERVQUAL[2]

Dimensions	Definition	Some illustrative measures for banking industry[5]
Reliability	Ability to perform promised service dependably and accurately	Provide service at the time they promised to do so Error free records Perform the service right the first time
Responsiveness	Willingness to help customers and provide prompt service	Provide prompt service to customers Always willing to help customers Never too busy to respond to customer requests
Assurance	Employees knowledge and courtesy and their ability to inspire trust and confidence	Behaviour of employees instils confidence in customers Employees are consistently courteous to customers Employees will have knowledge to answer customer questions
Empathy	Caring, individualised attention	Give customers individualised attention Have operating hours convenient to all customers Employees understand the specific needs of their customers
Tangibles	Appearance of physical facilities, equipment, personnel, and written materials	Physical facilities are visually appealing Communication materials are visually appealing Employees are neat in appearance

E- Service quality

The introduction of the World Wide Web has revolutionised the way many companies interact with their customers. With more personalised features in each transaction, greater control on the buying process, more information to make the correct buying decision, and superior relationship management tools, the web has made purchase more straightforward and accessible in many cases. On the other hand, any failure to deal with customer dissatisfaction and inadequate service recovery strategies have made companies more vulnerable as the closest competitor is potentially just a few clicks away. With the opportunity to do more one-to-one marketing, understanding customer specific attributes like technology readiness has become more important to create and design the ideal website and deliver superior e-service quality, which is service quality as defined and measured in an online environment.

In a recent survey with e-retail customers, it was found 65 % of the customers rate online support given by the e-retailer to be the most important, 58% rate order fulfilment as the key driver, whereas only 21% of the customers rate price as the most important determinant of their online loyalty[11]

Several attempts have been made in marketing literature to conceptualise and measure e-service quality. WebQual[12] is an instrument which provides an understanding of customer evaluation of websites. WebQual identifies dimensions such as visual appeal, response time, trust and interaction as key elements of better website design. It provides valuable insight on web design process but does not provide much insight into the consumer's actual purchase experience. SITEQUAL[13] is a scale to measure website quality. It identifies dimensions such as ease of use, aesthetic design, processing speed, and security as determinants of web service quality. It is a transaction oriented instrument dealing mainly with the purchase process and does not give a comprehensive picture of e-service quality. Perhaps the most popular tool to measure electronic service quality is E-S-QUAL (see Table 5)[14]. It is a 22 item scale grouped under four dimensions- efficiency, fulfilment, reliability and privacy. It also proposes a sub-scale with three dimensions responsiveness, compensation and contact to measure the e-service recovery process of the company. Service recovery is the collective actions that a company takes to deal with a complaint when a service failure has occurred. While reliability and responsiveness are present in the traditional measures of service quality, dimensions like efficiency, fulfilment are core measures of e-service quality which are a particular focus of e-service quality scales. E-S-QUAL can be used to provide a number of useful insights such as:

1. What are customer perceptions of the overall service delivered by a website for each of the dimensions of e-service quality?
2. How do customer perceptions of the overall service delivered by a website for each of the dimensions of e-service quality change over time?
3. What are customer perceptions of the overall service recovery process by offered by websites?
4. How do customer perceptions of the overall service recovery process by offered by websites change over time?
5. What are the strengths and weaknesses of web design and how might customer perceived service be improved?
6. What are the relative impacts of e-service dimensions on customer loyalty?

Table 5: Dimensions of e-service quality: E-S-QUAL[14]

Dimensions	Definition	Some illustrative measures for banking industry
Efficiency	Ease and speed of accessing and using the site	Site makes it easy to find what I need It enables me to complete a transaction quickly Site is well organised It is simple to use
Fulfilment	Fulfilment of order delivery and item availability as promised	Site is truthful about its offerings Makes accurate promises about delivery of products Content quality
Reliability	Correct technical functioning of the website	Site does not crash Pages in the site do not freeze after I enter my order information Email replies
Privacy	Site is safe and protects customer information	Site does not share my personal information Does not send unsolicited emails Personalisation
Responsiveness	Handling of problems	Site takes care of problems promptly It tells me what to do if my transaction is not processed Email response Callback facility Download speed
Compensation	Degree of compensation for problems	Site compensates me for problems it creates It compensates me when what I ordered doesn't arrive on time
Contact	Degree of access	Site gives contact telephone number It has online customer service representatives It offers ability to speak to a person in case of problems

The paper concludes by offering a casestudy to illustrate many of the points made in the discussion above.

SERVQUAL application in banking- A case study

It's Friday evening and the CEO of ABC Bank has convened an emergency board meeting. During the last two quarters, the bank has invested heavily in its customer relationship management software in the hope that it would overtake its closest rival in terms of greater market share and more profit across customer segments and its product portfolio. But the financial results show something different. ABC has steadily lost its market share as more customers have defected to its closest rival. The cost of each transaction has not gone down even after the refurbishment of the existing website. The number of customer complaints has increased substantially in spite having an elaborate service recovery action strategy in place. So, the CEO is really confused by the situation and has demanded a candid answer from his deputies. The manager in charge of customer relations makes an intriguing presentation in the meeting and identified the following issues which might have caused this debacle:

1. we do not know what customers expect from us
2. we do not know how customers rate us vis-à-vis competition
3. our service delivery system is inadequate
4. we do not portray ourselves truly to the outside world
5. we cannot identify the potential switchers

The outcome of this is customers are dissatisfied with our service and they defect.

The manager presented some interesting findings on the basis of SERVQUAL study which was carried out with a large group of ABC Bank customers. The customers compared ABC with an imagined excellent bank on five SERVQUAL dimensions- D1: tangibles, D2: reliability, D3: responsiveness, D4: assurance and D5: empathy (illustrative measures for each dimension can be obtained from Table 3).

The comparison is made on a seven point scale (1: strongly disagree, 7: strongly agree). The findings are as follows (see Table A):

Table A: SERVQUAL scores for ABC Bank

	ABC Bank (Perceptions P)	An excellent bank (Expectations E)	Gap Scores (P-E)
Reliability	4	7	-3
Responsiveness	3	6	-3
Assurance	4	6	-2
Empathy	3	7	-4
Tangibles	6	6	0
		Overall service quality score	(-3-3-2-4+0)/ 5= -2.4

The manager said; "it is clear that our investments in terms of upgrading our website, CRM software has brought us dividend as we are equal to any other excellent bank in terms of the tangibles dimension but we lack in terms of taking active interest to solve customer problems (reliability), provide timely response to customer requests (responsiveness), knowledgeable front-office staff who are empowered to answer customer queries (assurance), and in most of the cases we have lost touch with our customers to understand their changing aspirations (empathy: gap score of -4). So, our customers are extremely dissatisfied with the quality of service (overall service quality score – 2.4). We cannot be complacent with our service strategies and need a complete re-engineering to reach our customers (see Table B on how to interpret the SERVQUAL scores).

Table B: Interpreting SERVQUAL gap scores

Response	Description	Marketing implications
Positive	Excelled competition	Customers are extremely satisfied: Keep up the good work
Zero	Equal to competition	Customers may defect: Become more proactive in case of service recovery-if something goes wrong Find ways to delight your customers
Small Negative (-1 to -3)	Competitors are slightly ahead	Customers are dissatisfied with service: Find ways to improve supportive service Employee empowerment Benchmark against competition
Large negative (-4 to -7)	Way behind competition	Customers are extremely dissatisfied: Totally lost customer touch Do more of marketing research to know what customers are looking for Provide the basic services as expected from the industry Re-engineer service delivery process Do everything to retain these customers- they can destroy company image through extremely negative word-of-mouth

References

[1]Adapted from: *Services Marketing: Integrating customer focus across the firm*, By: Zeithaml, Valerie A.; Bitner, Mary Jo, McGraw-Hill, 3rd edn.

[2]A Conceptual Model of Service Quality and Its Implications for Future Research. By: Parasuraman, A.; Zeithaml, Valarie A.; Berry, Leonard L. *Journal of Marketing*, 1985, 49 (4), 41.

[3] A Service Quality Model and its Marketing Implications. By: Gronroos, Christian. *European Journal of Marketing*, 1984, 18 (4), 36-45.

[4] A Conceptual Model of Service Quality and Its Implications for Future Research. By: Parasuraman, A.; Zeithaml, Valarie A.; Berry, Leonard L. *Journal of Marketing*, 1985, 49 (4), 41.

[5] SERVQUAL: A Multiple Item Scale for Measuring Perceptions of Service Quality. By: Parasuraman, A., V.A. Zeithaml and L.L. Berry, *Journal of Retailing*, 1988, 64 (1), 12-40.

[6] Refinement and Reassessment of the SERVQUAL Scale. By: Parasuraman, A., L.L. Berry and V.A. Zeithaml, *Journal of Retailing,* 1991, *67* (4), 442-449.

[7] Lehtinen, U. and J.R. Lehtinen, (1991), "Two Approaches to Service Quality Dimensions," *The Service Industries Journal,* 11 (3), 287-303.

[8]An empirical assessment of comparative approaches to service quality measurement. By: Mukherjee, A. and P. Nath. *Journal of Services Marketing*, 2005, 19 (3), 174-184.

[9]Call center satisfaction and customer retention in a co-branded service context. By: Keiningham, T.L.; A. Lerzan; T. W. Andreassen; B. Cooil; B. J. Wahren. *Managing Service Quality*, 2006, 16 (3), 269-289.

[10]Finding the sweet spot: A two industry study using the zone of tolerance to identify determinant service quality attributes. By: Durvasula, S.; A.C. Lobo; S. Lysonski; S.C. Mehta. *Journal of Financial Services Marketing*, Feb2006, 10 (3), 244-259.

[11] *Internet Marketing: Strategy, Implementation and Practice*. By Chaffey, D., F. Ellis-Chadwick, K.Johnston and R.Mayer. Prentice Hall, 3rd edn, pg. 336- 340.

[12] WebQual: An Instrument for Consumer Evaluation of Web Sites. By: Loiacono, E.; R. T. Watson; D.L. Goodhue. *International Journal of Electronic Commerce*, 2007, 11(3), 51-87.

[13] Developing a scale to measure the perceived quality of an internet shopping site (SITEQUAL). By: Yoo, B. and N. Donthu. *Quarterly Journal of Electronic Commerce*, 2001, 2 (1), 31-46.

[14] E-S-QUAL: A Multiple-Item Scale for Assessing Electronic Service Quality. By: Parasuraman, A.; V.A. Zeithaml, and A. Malhotra. *Journal of Service Research*, Feb2005, 7 (3), 213-233.