ASSESSING BANKING INDUSTRY QUALITY USING THE SERVQUAL MODEL

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Abstract

Banking industry is realizing the significance of customer-centered philosophies and is turning to quality management approaches to help managing their businesses. This paper has started with the concept of service quality and has demonstrated the model of service quality gaps. SERVQUAL as an effective approach has been studied and its role in the analysis of the difference between customer expectations and perceptions has been highlighted with support of a banking example. Outcomes of the study outline the fact that although SERQUAL could close one of the important service quality gaps associated with external customer services, it could be extended to close other major gaps and therefore, it could be developed in order to be applied for internal customers, i.e. employees and service providers.

Key words: Service, Quality, Gaps, SERVQUAL, Customer, Expectations, Perceptions

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Introduction

Managers in the service sector are under increasing pressure to demonstrate that their services are customer-focused and that continuous performance improvement is being delivered. Given the financial and resource constraints under which service organizations must manage it is essential that customer expectations are properly understood and measured and that, from the customers ' perspective, any gaps in service quality are identified.

Literature review

The majority of the work to date has attempted to use the SERVQUAL (Parasuraman et al. , 1985; 1988) methodology in an effort to measure service quality (e.g. Brooks et al., 1999; Chaston, 1994; Edvardsson et al. , 1997; Lings and Brooks, 1998; Reynoso and Moore, 1995; Sahney et al. , 2004).

One of the objectives of the research involves the use of SERVQUAL instrument in order to ascertain any actual or perceived gaps between customer expectations and perceptions of the service offered. Another aim is to point out how management of service improvement can become more logical and integrated with respect to the prioritized service quality dimensions and their affections on increasing/decreasing service quality gaps.

Always there exists an important question: why should service quality be measured? Measurement allows for comparison before and after changes, for the location of quality related problems and for the establishment of clear standards for service delivery. Edvardsen et al. (1994) stated that, in their experience, the starting point in developing quality in services is analysis and measurement. The SERVQUAL approach, which is studied in the research, is the most common method for measuring service quality.

Objective of the study

There were three objectives for this study. First, based on the existing SERVQUAL model, we set out using both qualitative and quantitative scale development methods to develop a revised set of scales – ones that could be used for measuring perceived service quality in a culturally distinct

service sector setting using Indian consumers as our scale development and final study population.

Second, utilising that new instrument with a culturally valid set of scales, this study sought to discover and to confirm the underlying structure and dimensions of service quality in the service sector for Indian consumers.

Finally, this model was subsequently evaluated for its applicability for assessing customer perceptions of service quality at the enhanced service sector that had been introduced into the market.

SERVQUAL methodology

Clearly, from a Best Value perspective the measurement of service quality in the service sector should take into account customer expectations of service as well as perceptions of service. However, as Robinson (1999) concludes: "It is apparent that there is little consensus of opinion and much disagreement about how to measure service quality". One service quality measurement model that has been extensively applied is the SERVQUAL model developed by Parasuraman et al. (1985, 1986, 1988, 1991, 1993, 1994; Zeithaml et al. , 1990). SERVQUAL as the most often used approach for measuring service quality has been to compare customers' expectations before a service encounter and their perceptions of the actual service delivered (Gronroos, 1982; Lewis and Booms, 1983; Parasuraman et al., 1985). The SERVQUAL instrument has been the predominant method used to measure consumers' perceptions of service quality. It has five generic dimensions or factors and are stated as follows (van Iwaarden et al., 2003):

(1) Tangible: Physical facilities, equipment and appearance of personnel.

(2) Reliability: Ability to perform the promised service dependably and accurately.

(3) Responsiveness: Willingness to help customers and provide prompt service.

(4) Assurance (including competence, courtesy, credibility and security): Knowledge and courtesy of employees and their ability to inspire trust and confidence.

(5) Empathy (including access, communication, understanding the customer): Caring and individualized attention that the firm provides to its customers.

In the SERVQUAL instrument, 22 statements measure the performance across these five dimensions, using a seven point likert scale measuring both customer expectations and perceptions (Gabbie and O'neill, 1996). It is important to note that without adequate information on both the quality of services expected and perceptions of services received then feedback from customer surveys can be highly misleading from both a policy and an operational perspective.

242 usable responses were elicited from 400 distributed surveys. All customers were also asked to rate the relative importance of the SERVQUAL dimensions and assign a weight factor to each of the five dimensions for a total of 100 points. The resulting data was analyzed with MS- Excel.

Research Findings

Table 1 Comparison of results between gap-based SERVQUAL scale

Dimension	Service attribute	E-score	P-score	Score	Rank
Tangible	1. Excellent banks will have modern looking equipment.	5.81	4.49	-1.32	11
	2. The physical facilities at excellent banks will be visually appealing.	5.63	4.47	-1.16	17
	3. Personnel at excellent banks will be neat in appearance.	5.69	4.63	-1.06	21
	4. Materials associated with the service (such as pamphlets or statements) will be visually appealing in excellent bank?	5.83	4.74	-1.09	20
Reliability	5. When excellent banks promise to do something by a certain time they will do so.	5.89	4.46	-1.43	7
	6. When a customer has a problem, excellent banks will show a sincere interest in solving it.	5.89	4.48	-1.41	8
	7. Excellent banks will get things right the first time.	5.7	4.23	-1.47	3
	8. Excellent banks will provide their services at				

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	the time they promise to do so.	5.77	4.33	-1.44	6
	9. Excellent banks will insist on error-free records.	5.79	4.78	-1.01	22
Responsiveness	10. Personnel in excellent banks will tell customers exactly when services will be performed.	5.81	4.66	-1.15	18
	11. Personnel in excellent banks will give prompt service to customers.	5.78	4.55	-1.23	15
	12. Personnel in excellent banks will always be willing to help customers.	5.86	4.42	-1.44	5
	13. Personnel in excellent banks will never be too busy to respond to customers' requests.	5.64	4.13	-1.51	1
Assurance	14. The behaviour of personnel in excellent banks will instill confidence in customers.	5.82	4.36	-1.46	4
	15. Customers of excellent banks will feel safe in their dealings with the banks.	5.95	4.83	-1.12	19
	16. Personnel in excellent banks will be consistently courteous with customers.	5.62	4.31	-1.31	12
	17. Personnel in excellent banks will have the knowledge to answer customers' questions.	5.83	4.54	-1.29	13
Empathy	18. Excellent banks will give customers individual attention.	5.54	4.19	-1.35	9
	19. Excellent banks will have operating hours convenient to all their customers.	5.57	4.39	-1.18	16
	20. Excellent banks will have staffs who give customers personal attention.	5.38	4.10	-1.28	14
	21. Excellent banks will have the customers' best interests at heart.	5.72	4.23	-1.49	2
	22. The personnel of excellent banks will understand the specific needs of their customers.				

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		5.88	4.55	-1.33	10

E- Expectation, P- Perception

As the above results show, the limitations of gap score argued by former researchers originate from the use of differently generated scales. As can be seen from Table 1, all questionnaire responses were negative

As a second step, the banking industry needed to know where any improvements should be made to the quality of service. Table 1 shows the results of the survey obtained from the evaluation of the 242 customers. According to the research, question number 13 got the worst gap (the first rank). So banking industry must improve their responsiveness.

In an investigation conducted by the authors in the banking industry, a total of 400 questionnaires were distributed and out of that 242 were collected from the respondents. As can be seen from Table 2, all questionnaire responses were negative and an overall departmental weighted SERVQUAL score of – 1.289 was recorded, indicating a significant shortfall in meeting customer expectations across all service areas and dimensions. The summary scores for each dimension are shown in Table 2, with the weighted average scores per dimension having been totaled to achieve the overall SERVQUAL score. As can be seen from Table 2, the highest gap scores were for Reliability, Empathy and Responsiveness; this is real cause for concern and provides a definite staring point for service improvements. As can be seen from the results, the customer expects most from the Reliability and Empathy dimension of the banking service. The relatively low importance of Tangibles could be attributable to the fact that customers are aware of the financial constraints which are typical in the local authority funding context, and simply do not expect much when it comes to aesthetics; instead, they attach more importance to the delivery aspects of the service. Customers allocated to Empathy the lowest weighting, indicating it to be of least importance to them, yet they expect most from this service dimension. This apparent anomaly is probably due to the fact that customers expect staff to be knowledgeable about the service and therefore they can see no reason for this dimension not to be achieved. It is assumed that for this reason, customers have weighted this dimension lowest.

Table 2: SERVQUAL scores for banking services

Dimension	Expectations (E)	Perceptions (P)	Gap scores (X= P-E)	Weightings (Y)	Weighted Average (∑XY)
Tangibles	5.725	4.575	-1.15	19.81	-0.228
Reliability	5.82	4.48	-1.34	23.19	-0.311
Responsiveness	5.775	4.45	-1.325	20.72	-0.275
Assurance	5.775	4.5	-1.275	19.73	-0.252
Empathy	5.62	4.28	-1.34	16.67	-0.223

Note: Overall average weighted SERVQUAL score = -1.289

Discussion

The research on measuring service quality has focused primarily on how to meet or exceed the external customer's expectations, and has viewed service quality as a measure of how the delivered service level matches consumer's expectations. These perspectives can also be applied to the employees of a firm and in this case, other major gaps could be closed in the service quality gaps model (Kang *et al.*, 2002).

The concept of measuring the difference between expectations and perceptions in the form of the

SERVQUAL gap score proved very useful for assessing levels of service quality. Parasuraman *et al.,* argue that, with minor modification, SERVQUAL can be adapted to any service organisation. They further argue that information on service quality gaps can help managers diagnose where

performance improvement can best be targeted. The largest negative gaps, combined with assessment of where expectations are highest, facilitate prioritization of performance improvement. Equally, if gap scores in some aspects of service do turn out to be positive, implying expectations are actually not just being met but exceeded, then this allows managers to review whether they may be "over-supplying" this particular feature of the service and whether there is potential for re-deployment of resources into features which are underperforming.

It seems that in almost all the existing resources, the SERVQUAL approach has been used only for closing Gap 5. However, its application could also be extended to the analysis of other gaps. It is important to note that SERVQUAL is only one of the instruments used in service quality analysis and there are different approaches which might be stronger in closing gaps. SERVQUAL has been extensively criticized on both theoretical and operational grounds (see Asubonteng *et al*., 1996), although Asubonteng *et al.* (1996) conclude that: "Until a better but equally simple model emerges, SERVQUAL will predominate as a service quality measure". It is also evident that SERVQUAL by itself, useful though it may be to a service manager, will not give a complete picture of needs, expectations and perceptions in a service organization context. As Gaster (1995) comments, "because service provision is complex, it is not simply a matter of meeting expressed needs, but of finding out unexpressed needs, setting priorities, allocating resources and publicly justifying and accounting for what has been done". Service organizations are responsible and accountable to citizens and communities as well as to customers and service users. There are wider service organization agendas than simply service quality: improving access to existing services; equity and equality of service provision; providing efficient and effective services within political as well as resource constraints. The definition of service quality therefore takes on a wider meaning and accordingly its measurement becomes both more complex and more difficult.

Besides the discussed weaknesses, a particular advantage of SERVQUAL is that it is a tried and tested instrument which can be used comparatively for benchmarking purposes (Brysland and Curry, 2001). SERVQUAL does, however, benefit from being a statistically valid instrument as a result of extensive field testing and refinement. It therefore escapes the pitfall of being perceived by service users and providers as "something that has been invented off the top of the head" or a questionnaire that has been skewed to elicit certain types of response. As a generic and universally-applicable instrument, SERVQUAL can also be administered on a repeated, regular

basis and used for comparative benchmarking purposes. To appreciate more fully the benefits of using SERVQUAL, surveys should be conducted every year, for the following reasons:

- To allow yearly comparisons;

- To determine how service improvements have affected customers' perceptions and expectations of the service over time; and

- To determine the effectiveness of service development and improvement initiatives in targeted dimensions.

It is important to note that the measurement systems themselves are often inappropriate because the system designers do not know enough about what is to be measured. Measuring customer perceptions of service may increase expectations and measuring too often may well result in customers losing their motivation to answer correctly. Finally, there is no point in measuring service quality if one is not willing to take appropriate action on the findings.

Conclusions

In this paper, service quality and its model of gaps were reviewed with respect to the banking industry. SERVQUAL methodology as an analytical approach for evaluating the difference between customers' expectations and perceptions of quality was also studied.

While this research provides some perspectives to the field of service quality, it is believed that there are a number of things that should be done to confirm the demonstrated methodologies as well as to expand the use of SERVQUAL in design and improvement of quality services.

Just as the SERVQUAL instrument is extensively used to assess external service quality, the instrument can also be modified to assess the quality of the internal service provided by departments and divisions within a company to employees in other departments and divisions.

The results of the current study illustrate that organizations can at least assess five dimensions of service quality to ascertain the level of services provided, and to determine which dimensions need improvement.

In order to improve service quality, it is necessary to contact employees regularly and assess their service experiences. Like the external customer, an internal customer too considers categories of

service attributes, such as reliability and responsiveness, in judging the quality of the internal service.

With the knowledge of the internal service quality dimensions, the service organizations can then judge how well the organization or employees performed on each dimension and managers could identify the weakness in order to make improvements.

Future research should seek to examine the use of SERVQUAL to close other service quality gaps for different types of organizations. Also, an important issue for future research is about the relationship between internal service quality and external customer satisfaction as well as other constructs, such as employee service orientation, and external service quality.

In conclusion, knowing how banking customers perceive the service quality and being able to measure service quality can benefit banking industry professionals in quantitative and qualitative ways. The measurement of service quality can provide specific data that can be used in quality management; hence, service organizations would be able to monitor and maintain quality service. Assessing service quality and better understanding how various dimensions affect overall service quality would enable organizations to efficiently design the service delivery process. By identifying strengths and weaknesses pertaining to the dimensions of service quality organizations can better allocate resources to provide better service and ultimately better service to external customers. Generally speaking, the study of service quality is both important and challenging. Future efforts should continue to advance the understanding of the concept and the means to measure and improve service quality.

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