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Identifying the critical determinants of service quality in retail banking: importance and effect

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Provides managers with an empirically derived framework to help them assess the likely impact of any service quality initiative. Categorizes quality factors in terms of their relative importance and their effect on satisfaction and dissatisfaction. States that the study is based on an analysis of over 200 customer anecdotes of incidents in the UK banking industry and 100 interviews. Research suggests that certain activities, such as increasing the speed of processing information and customers, are likely to have an important effect in terms of delighting customers, however other activities, such as improving the reliability of equipment, will lessen dissatisfaction rather than delight customers. Suggests that it is more important to ensure that the dissatisfiers are dealt with before the satisfiers. Also suggests that there are two areas where banks could achieve a distinct advantage, genuine commitment and attentiveness by front-line staff. States that some other areas are not worth much attention and any time and money put into these areas might be better redirected elsewhere.

Introduction

A disturbing paradox in the UK banking industry is the amount of reported customer dissatisfaction with banks, despite large-scale efforts of the banks, over many years, to try to improve their service to customers. A poll conducted in 1993 for the National Consumers Council by MORI found that only 34 per cent of respondents were very satisfied with their banking services, compared to 62 per cent in 1988 (MORI, 1994). The Consumers’ Association’s magazine Which? continues to report high levels of customer dissatisfaction. The magazine in 1994 claimed that customer perception of the quality of service provided by banks remains at best medioc rate and at worst poor; “By and large, banks aren’t delivering on service promises. Laudable exceptions apart, banking services are all too often second-rate. Thousands of customers have cause to deplore the high-handed ineptitude of those they trust with their cash” (Which?, 1994).

In response to increasing competition, enhanced customer needs and consumer group pressure, the high street banks and building societies have taken some steps to try to improve service quality over the last ten years. These developments include, for example, increasing the speed of handling telephone calls, improving attentiveness and politeness of face-to-face encounters, trying to reduce time spent in queues, improving the reliability of ATMs, improving the environment of the banking halls and extending the availability of electronic and telephone banking.

Reasons for the paradox?

One reason for the number of problems is the huge volume of transactions that banks and building societies process. National Westminster, for example, one of the largest banks in the UK, handles 15 million transactions every day for its six million customers, maintaining, for example, over 32.5 million direct debits/standing orders. It is therefore not too surprising that mistakes occur, in view of the volume of transactions handled. However, the size of the problem is worrying. A MORI survey of 1,879 customers (1994) found that nearly half of all customers (48 per cent) had experienced at least one mistake during the previous 12 months.

A second reason, and the theme for this paper, is that managers may tend to focus, quite understandably, on doing the things that will improve customer satisfaction, yet what customers and consumer associations may notice more are the things that lead to dissatisfaction. While many quality initiatives are in evidence, do managers know which are the critical activities and do they understand the difference between satisfaction and dissatisfaction creation, and which of these are the most important to their customers?

Service quality determinants

Underpinning our understanding of service quality is an array of factors or determinants. A number of researchers have provided lists of quality determinants, for example, Albrecht and Zemke (1985); Aristead (1990); Grönnos (1990); and Walker (1990). Probably the best known determinants emanate from two groups of researchers, Parasuraman and colleagues from the USA and Johnston and colleagues in the UK.

Parasuraman et al. (1985) provided a list of ten determinants of service quality; access, communication, competence, courtesy, credibility, reliability, responsiveness, security, understanding and tangibles. The research team found a high degree of correlation between communication, competence, courtesy, credibility and security, and between access and understanding and so they combined them into two broad dimensions of assurance and empathy, i.e. a total of five consolidated dimensions (Berry et al., 1985). They then used the five dimensions, tangibles, reliability, responsiveness, assurance and empathy as the basis for their service quality measurement instrument, SERVQUAL (Parasuraman et al., 1988; Zeithaml et al., 1990). Parasuraman et al. (1988) stated that “although the relative importance of the categories would vary from one service industry to the next, we believe the determinants of service quality in most (if not all) consumer service industries are included in this list” (Berry et al., 1985). These dimensions, and the perception-based
SERVQUAL instrument, have been the subject of some criticism for their completeness, appropriateness in a variety of settings and the use of a perception-based instrument for measuring service quality (see for example Carman, 1990; Cronin and Taylor, 1992; and Finn and Lamb, 1991). Despite this criticism, these dimensions and the SERVQUAL instrument have formed the basis for a considerable amount of research and application in the field of service management.

In terms of the focus of this study there are two additional concerns with Parasuraman et al.'s (1988) work. First, although the SERVQUAL instrument allows users to include relative weightings for the dimensions, there is some uncertainty about their relative importance. Parasuraman et al. (1988) reported that, regardless of the service being studied, reliability was the most critical dimension, followed by responsiveness, assurance and empathy. The tangibles were of least concern to service customers. While one could argue that tangibles are not a quality dimension but an element of the service itself, whereas the reliability or functionality, for example, of the tangibles are quality dimensions, it seems evident that in some service situations, such as retailing, the "tangibles" constitute the core purchase. Second, Parasuraman et al. (1988) do not distinguish between the effect of the dimensions in terms of creation of satisfaction or dissatisfaction. It is assumed that they are the two sides of the same coin implying, for example, that a bank which opens and closes erratically (unreliability) will lead to dissatisfied customers, and therefore a bank which opens and shuts precisely on time will lead to delighted customers!

Johnston et al. (1990) undertook some testing of the comprehensiveness of Parasuraman et al.'s service quality determinants in the light of empirical data gathered in ten UK service organizations. Their analysis, although generally supportive of the ten determinants, suggested a refined list of 12. After further testing and development the team provided 18 determinants of service quality providing probably the most comprehensive and detailed list of determinants of service quality (Johnston, 1995). The 18 factors are: access, aesthetics, attentiveness/helpfulness, availability, care, cleanliness/tidiness, comfort, commitment, communication, competence, courtesy, flexibility, friendliness, functionality, integrity, reliability, responsiveness and security (see Appendix).

Importance and effect

There has been some work to assess the importance and effect of the service quality factors. In terms of importance, Berry et al. (1985) and Johnston (1995) identified responsiveness as an important factor but were unable to weight the other factors at an industry level. Rosen and Karwan (1994) identified the relative importance of Parasuraman et al.'s (1988) five quality dimensions for four types of service organizations, though not banks. Bitner et al. (1990), identified employees' willingness to respond to a problem and their employees' responsiveness to customer needs as key factors in service quality. Avkiran (1994), in a study of an Australian trading bank, found elements of credibility and responsiveness to be the most important.

In terms of the factors effect on satisfaction and dissatisfaction Silvestro and Johnston (1990), inspired by Herzberg's motivating and hygiene factors (Herzberg et al., 1959), identified three types of factors; hygiene (dissatisfiers), enhancing (satisfiers) and dual factors (factors capable of both satisfying and dissatisfying). They defined dissatisfying factors as those factors which if in evidence will cause dissatisfaction, however if they are not evident will not be a source of delight. A dirty banking hall may dissatisfy customers, however, once "clean" no end of polishing is likely to delight customers. Satisfiers are those factors which when improved beyond adequacy have a positive effect on perceptions. However, when these factors are either not in evidence, or poorly performed, their performance does not detract from customer perceptions of service quality. A teller who does not provide a personal greeting on the second visit to a branch is not likely to dissatisfy the customer, however, if the teller does recognize the customer and remembers his/her name, the customer may be quite delighted. Critical factors are those which can be both satisfying and dissatisfying and therefore any changes in levels of performance can have both a negative and a positive effect (see also Johnston and Heineke, forthcoming).

Cadotte and Turgeon (1988) identified a fourth category; neutral factors (see also Lockwood, 1994). Neutral factors are the least sensitive to changes in performance. Any change in levels of performance in these factors will have little impact on perceptions.

Some testing of these categories has been provided by Smith et al. (1992) and Mersha and Adlakha (1992), however, the most comprehensive testing to date has been carried out by Johnston (1995). He concluded that the causes of dissatisfaction are not necessarily the obverse of the causes of satisfaction. He identified attentiveness, responsiveness, care and friendliness as the main sources of satisfaction, and integrity, reliability, responsiveness, availability and functionality as the main sources of dissatisfaction. The problem with this work, and with assessing effect...
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Research questions

This study seeks to combine the classification of quality factors into satisfiers and dissatisfiers together with their relative importance. Its purpose is to identify, through empirical research in the UK banking industry, the importance and effect of the determinants of service quality so that managers might be better armed to decide how to allocate limited resources to improve or stabilize service quality. This is summarized in terms of two research questions:

1. Which quality factors are the most important to customers?
2. Which quality factors are the ones which tend to delight customers and which are those that tend to dissatisfy?

Identifying the critical determinants

One major UK high street bank agreed to be involved and to provide direct access to its personal account customers from several branches. Two studies were undertaken, one to assess the effect of the factors and a second to assess their relative importance. Two separate studies were required as combining them would have jeopardized the findings. An open format approach (see below) was used to identify effect. This allowed customers’ free response rather than limiting them to fixed criteria which would have constrained the range of responses. The list that was generated from this survey was then used as the basis for the second survey to identify importance.

Effect

The critical incident technique which had been used in many of the earlier studies was chosen because it allows customers to express their perceptions in their own words and classify them into satisfying and dissatisfying stories. Based on the earlier studies by, for example Smith et al. (1992), the questionnaire comprised two main questions. The first question asked customers to think of a time when they felt very pleased and satisfied with the service received and to describe the service situation and why they felt so happy. The second question required customers to think of a time when they were unhappy and dissatisfied with the service they received and to ask them to describe, in a few sentences, why they felt this way. The questionnaire also requested some demographic details including sex, age and level of education.

A random sample of 1,500 customers was chosen from a high street bank’s customer base. More than 15 per cent of the questionnaires were returned, yielding 223 (usable) completed questionnaires. There was a high level of correlation between the locations regarding the sex, level of education and age of respondents which were consistent with the population of over-16-year-olds with bank accounts.

Each anecdote was numbered and summarized into a list of keywords and phrases which encapsulated the customer’s experience of the service. This was then recorded on to an index card. Two sets of cards were created, one for the anecdotes relating experience of good service (the satisfiers) and one for the anecdotes of poor service (the dissatisfiers). The summaries were then classified independently by two researchers. Discrepancies were identified, discussed and resolved. There were no key words or phrases used which were not captured by the 18 quality factors.

Importance

A convenience sample of one hundred bank customers between the ages of 18 and 60, of both sexes, were interviewed over a period of three weeks, by five postgraduate students, in the banking halls of five banks chosen, to try to reflect a mix of socio-economic backgrounds. The classification scheme was explained to the customers and they were asked to rate, from 0 to 4, the relative importance of the 18 factors in terms of the service provided by their high street bank. Each factor was accompanied by a brief description and the categories were also described. There was no significant difference between the responses from the five different locations.

Analysis and discussion

The frequencies of mention, classified by their satisfying or dissatisfying effect, are normalized and summarized in Table I. Each factor’s average importance on a five point scale (4=very important, 0=unimportant) are also shown in Table I.

Spearman’s coefficient of rank correlation was used to compare the difference between the rank orders of the frequency of mentions of satisfiers and dissatisfiers. The null hypothesis that there was no difference...
between the satisfiers and dissatisfiers was rejected at the 90 per cent level suggesting that the determinants associated with dissatisfaction are significantly different from those that create satisfaction.

It is interesting to note that the main satisfiers, i.e. the factors that may delight customers, tend to be concerned more with the intangible nature of the service, commitment, attentiveness, friendliness, care and courtesy. The main sources of dissatisfaction appear to be cleanliness, aesthetics, integrity, functionality, reliability and security which are associated with either the more tangible aspects of service or systemic issues.

In terms of importance, the averages in the Table show that all the factors were felt to be at least of some minor importance. This, however, does not reveal the spread of responses, indeed some respondents felt that aesthetics, cleanliness and comfort were of no importance. The majority of factors spread across three points of the 0-4 scale, competence covered just two points and flexibility all five.

Six zones have been added to Figure 1 to try to suggest how managers can identify priorities for improving customer satisfaction. It is suggested that any factors lying below 2 (only of limited importance), such as comfort, are worthy of only minimal time and effort. In the next zone, between 2 and 2.5, any factors lying here should be provided to a basic standard. It is interesting to note that all of the three factors here are dissatisfiers rather than satisfiers. The factors with potential to dissatisfy above 2.5 on the satisfaction scale need to be managed to ensure that problems do not occur. The availability of service facilities, staff and goods to the customer cannot be ignored as unavailability will dissatisfy customers, and, this is seen to be important to them. Likewise, communication (the ability of the service to communicate with the customer in a way he or she will understand) cannot be ignored. The factors in the high importance and high potential to dissatisfy require special attention. It is suggested that organizations cannot afford to fail in these areas. Whereas care and communication are somewhat more neutral in their effect, functionality, security, reliability and integrity are seen as vital traits of a banking service. Failing in these factors will result in a significant degree of dissatisfaction. There are many areas in which managers could consider improving the level of service provided which will have a positive impact on customer satisfaction. Care (the concern, consideration, sympathy and patience shown to the customer), friendliness, flexibility, responsiveness and courtesy are traits which are not necessarily expected but, if delivered, could significantly influence customer perceptions of the service provided. The high-importance factors with a high potential to delight, such as commitment and attentiveness, are areas where banks might be able to develop a reputation for excellence. Unlike courtesy, which can be scripted, or responsiveness which can be designed-in through staff rotas and routines, the demonstration of commitment and attentiveness rely on the genuine ability of frontline staff to empathize with and respond to each individual customer and is so much more difficult to achieve.

### Table 1

<table>
<thead>
<tr>
<th>Factors</th>
<th>Satisfying</th>
<th>Dissatisfying</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment</td>
<td>100</td>
<td>0</td>
<td>3.2</td>
</tr>
<tr>
<td>Attentive/help</td>
<td>96</td>
<td>4</td>
<td>3.7</td>
</tr>
<tr>
<td>Friendliness</td>
<td>96</td>
<td>4</td>
<td>3.0</td>
</tr>
<tr>
<td>Care</td>
<td>81</td>
<td>19</td>
<td>2.6</td>
</tr>
<tr>
<td>Courtesy</td>
<td>77</td>
<td>23</td>
<td>3.3</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>67</td>
<td>33</td>
<td>3.5</td>
</tr>
<tr>
<td>Flexibility</td>
<td>60</td>
<td>40</td>
<td>3.2</td>
</tr>
<tr>
<td>Competence</td>
<td>51</td>
<td>49</td>
<td>3.8</td>
</tr>
<tr>
<td>Comfort</td>
<td>50</td>
<td>50</td>
<td>1.7</td>
</tr>
<tr>
<td>Communication</td>
<td>49</td>
<td>51</td>
<td>3.6</td>
</tr>
<tr>
<td>Availability</td>
<td>42</td>
<td>58</td>
<td>3.3</td>
</tr>
<tr>
<td>Access</td>
<td>33</td>
<td>77</td>
<td>2.2</td>
</tr>
<tr>
<td>Cleanliness/tidy</td>
<td>17</td>
<td>83</td>
<td>2.2</td>
</tr>
<tr>
<td>Security</td>
<td>17</td>
<td>83</td>
<td>3.4</td>
</tr>
<tr>
<td>Reliability</td>
<td>15</td>
<td>85</td>
<td>3.6</td>
</tr>
<tr>
<td>Functionality</td>
<td>7</td>
<td>93</td>
<td>3.3</td>
</tr>
<tr>
<td>Integrity</td>
<td>0</td>
<td>100</td>
<td>3.6</td>
</tr>
<tr>
<td>Aesthetics</td>
<td>0</td>
<td>100</td>
<td>2.1</td>
</tr>
</tbody>
</table>

### Conclusion and managerial implications

This research has provided managers with a framework to help them assess the likely impact of any service quality initiative in terms of its effect and importance.
Responsiveness has been shown to be an important factor, supporting previous work by, for example, Berry et al. (1985), Bitner et al. (1990) and Avkiran (1994). This would suggest that efforts to increase speed of processing information and customers is likely to have an important and positive effect on customer satisfaction.

This work has also clearly identified other factors, such as the functionality of machines, the reliability of transactions, the integrity of the staff and the confidentiality of the service. Functionality, security, reliability and integrity, although they would not lead to delighted customers, are areas where banks cannot afford to make mistakes as they are very important to customers and are potentially highly dissatisfying factors. Time and money spent in these areas would likely reduce time and effort spent dealing with dissatisfied customers and potentially losing their business.

Furthermore, it is suggested that it is more important to ensure that these dissatisfiers are dealt with before the satisfiers. Having polite and courteous staff is little consolation for a customer who feels highly dissatisfied because of an integrity- or security-type error, for example.

It has also been suggested that there are two areas where a bank could achieve a distinct advantage; the commitment and attentiveness shown by staff during encounters with customers. These are areas which are considered to be very important by customers and ones which provide the greatest opportunity to delight. Commitment and attentiveness, however, are difficult to script-in to a service encounter and any disingenuous show of warmth and empathy would throw into doubt the integrity of staff, an important dissatisfier. The challenge for banks wishing to delight their customers is to get their staff to demonstrate genuine warmth and empathy and to their customers.

More straightforward areas which would have a positive though not as great impact on satisfaction are flexibility, friendliness, courtesy, communication and competence. These are areas where well-designed routines and responses could be used to gain maximum impact.

The research has also shown that there are some areas which are not worth much attention. Any time and money, beyond a basic provision, put into comfort, cleanliness and aesthetics for example, would be better redirected elsewhere.

References

Albrecht, K. and Zemke, R. (1985), Service America, Dow Jones-Irwin, Homewood, IL.


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Appendix: Definitions of the 18 determinants of service quality

Access
The physical approachability of service location, including the ease of finding one’s way around the service environment and clarity of route.

Aesthetics
Extent to which the components of the service package are agreeable or pleasing to the customer, including both the appearance and the ambience of the service environment, the appearance and presentation of service facilities, goods and staff.

Attentive/ helpfulness
The extent to which the service, particularly contact staff, either provide help to the customer or give the impression of being interested in the customer and show a willingness to serve.

Availability
The availability of service facilities, staff and goods to the customer. In the case of contact staff this means both the staff/customer ratio and the amount of time each staff member has available to spend with each customer. In the case of service goods, availability includes both the quantity and range of products made available to the customer.

Care
The concern, consideration, sympathy and patience shown to the customer. This includes the extent to which the customer is put at ease by the service and made to feel emotionally (rather than physically) comfortable.

Cleanliness/tidiness
The cleanliness, neat and tidy appearance of the tangible components of the service package, including the service environment, facilities, goods and contact staff.

Comfort
The physical comfort of the service environment and facilities.

Commitment
Staff’s apparent commitment to their work, including the pride and satisfaction they apparently take in their job, their diligence and thoroughness.

Communication
The ability of the service to communicate with the customer in a way he or she will understand. This includes the clarity, completeness and accuracy of both verbal and written information communicated to the customer and the ability to listen to and understand the customer.

Competence
The skill, expertise and professionalism with which the service is executed. This includes the carrying out of correct procedures, correct execution of customer instructions, degree of product or service knowledge exhibited by contact staff, the rendering of good, sound advice and the general ability to do a good job.

Courtesy
The politeness, respect and propriety shown by the service, usually contact staff, in dealing with the customer and his or her property. This includes the ability of staff to be unobtrusive and uninterfering when appropriate.

Flexibility
A willingness and ability on the part of the service worker to amend or alter the nature of the service or product to meet the needs of the customer.

Friendliness
The warmth and personal approachability (rather than physical approachability) of the service, particularly of contact staff, including cheerful attitude, the ability to make the customer feel welcome.

Functionality
The serviceability and fitness for purpose or “product quality” of service facilities and goods.

Integrity
The honesty, justice, fairness and trustworthiness with which customers are treated by the service organization.

Reliability
The reliability and consistency of performance of service facilities, goods and staff. This includes punctual service delivery and ability to keep to agreements made with the customer.

Responsiveness
Speed and timeliness of service delivery. This includes the speed of throughput and the ability of the service to respond promptly to customer service requests, with minimal waiting and queuing time.

Security
Personal safety of the customer and his or her possessions while participating in or benefiting from the service process. This includes the maintenance of confidentiality.