SERVICE QUALITY EVALUATION IN LATVIAN BANKING

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Abstract

The competitive power of a bank is largely defined by the degree of its conformance to customer needs. Thus, customer satisfaction and loyalty are critically important factors to achieve long-term business prosperity in banking. In turn, customer satisfaction depends on provided service quality and its perception by customers. The goal of the research is to take the opinions of Latvian citizens about the service quality in Latvian banks. Besides, the aim was to compare bank customers' and employees' perceptions of service quality and to evaluate the gap. To achieve these goals, the authors used their own developed questionnaires. To evaluate bank service quality, SERVPERF and weighted SERVPERF models were applied. Data processing was conducting with SPSS and AQUAD programs. The scientific contribution of the authors is development and approbation of the qualitative instrument for measuring service quality that can be used by bank managers to make right marketing decisions.

Keywords: customer satisfaction, bank service quality, SERVQUAL model.
JEL Classification: M31.

Introduction

Based on modern economic theory, value maximization should be an integral goal for any company (Helfert, 2003; Sinkey, 2007). Based on the viewpoint of the experts from Boston Consulting Group, sustainable value creation is built on a foundation of distinctive customer value and competitive advantage that allows a company to deliver superior shareholder returns over the long term (Olsen *et al.*, 2009). Companies get a competitive advantage when customers choose buy from them instead of from their competitors (Coyne *et al.*, 2000).

According to Leichtfuss *et al.* (2010) in the post-crisis period, banks have come to rely on their retail operations as an invaluable source of funding for the asset side of the balance sheet. Besides, customer relationships are critical to generating high-quality assets. In the post-crisis world, banks need to know their customers well (Dayal *et al.,* 2009).

Many researchers discuss the relationships between customer satisfaction, customer loyalty, and profitability of a company (Dumond, 2000; Payne *et al.,* 2000; Jamal & Anastasiadou, 2009; Beerli *et al.*, 2004).

Satisfaction is a result of a product related experience. The most important determinant of customer satisfaction is service quality perceived by bank clients. Providing superior service quality contributes to profitability due to enhanced customer loyalty, and as consequence, higher customer retention (Chi Cui *et al.,* 2003; Ladhari *et al.*, 2011; Abdullah *et al.* 2010). Provision a high quality service helps to attract new customer through word-of-mouth recommendations, leads to higher market share, lowers operating cost, improves productivity and enhances company's image (Lewis, 1993; Julian & Ramaseshan, 1994). The key to building a competitive advantage is a bank's ability to deliver a high-quality service that meets the needs and expectations of customers (Ennew & Waite, 2007).

The scientific goals of the current research are: (1) to evaluate service quality perceived by retail bank customers in Latvia, and (2) to examine the gap between service quality evaluation by bank customers and employees. The research questions are, as follows:

1. What are the importance weights of service quality factors from the viewpoint of bank customers and employees?
2. How do customers and employees evaluate service quality in their banks?

Besides, the authors' aim is to determine (1) the reasons why customers terminate the relationships with a bank, (2) the most important factors that stimulate customers to buy bank products, and (3) the most important traits of ideal bank front-office employee.

The following research hypotheses are developed:

H1: There is a difference between the importance weights of the service quality factors evaluated by customers and employees;

H2: There is a difference between bank customers' and employees' overall perception of service quality;

H3: There is a difference between bank customers' and employees' vision of an ideal bank customer servicing specialist.

To answer the research questions and to test the hypotheses, the authors developed two questionnaires – for bank customers and bank employees. They consist of several sections that involve the statements for evaluation. To evaluate each of the statements respondents will be offered to use 5-point Lykert type scale. Data processing was conducting with program SPSS 19.0. Only two opened questions are included into the customer questionnaire. These answers were analysed with program AQUAD as a software tool.

Research background

Service quality is a multidimensional concept, incorporating a number of aspects of both past and present service experience (Abdullah *et al.,* 2011). Customers do not buy products and services. They buy value, the total package of product performance, access, experience, and cost. Enterprises that understand how customers define value across these dimensions achieve superior long-term profitable growth. Incomplete and vague value propositions do not allow the enterprise to differentiate its offering from competitor products (Kothari & Lackner, 2006).

Based on Kotler, the customers buy from a company, if its offering has the highest perceived value (Kotler, 2003). Customer perceived value is the difference between the prospective customer's evaluation of all the benefits and all the costs of an offering. Total customer value is the perceived monetary value of the bundle of economic, functional, and psychological benefits that customers expect from a given offering. Total customer cost is the bundle of costs customers expect to incur in evaluating, obtaining, using, and disposing of the given offering.

Scientific literature reveals that there is a positive relationship between quality of services and customers' satisfaction. The main components which create customer satisfaction are (Rostamy, 2009): (1) Personnel: including skills and knowledge, responsiveness, communication and collaboration and friendliness components; (2) Product: including product variety, special services and cost components; (3) Image: including credibility, technology excellence and ability to satisfy future needs; (4) Service: including service waiting time, services processes and service information; and (5) Access: including network expansion, troubles in the service system and location of service centres.

According to the Institute of Banking Studies survey results, the principal drivers of customer satisfaction are: (1) excellent staff, (2) efficient operations, (3) convenience, (4) competitive costs, and (5) excellent image (Jones, 2004).

The widely know instrument for measuring service quality is SERVQUAL model, developed in 1988 (Parasuraman *et al.,* 1988). The main idea of the model is to measure the gap between customer expectations and experience. Initially, the model involved 10 dimensions of service quality. Later, it was modified into the RATER model. In accordance with it, five key dimensions of service quality are:

1. Reliability (the ability to deliver the promised service dependably and accurately);
2. Assurance (the service quality that focuses on the ability to inspire trust and confidence);
3. Tangibles (focus on the elements that represent the service physically);
4. Empathy (emotional aspect of service);
5. Responsiveness (the willingness to help customers and provide prompt service).

Despite wide application of SERVQUAL, it has been often criticized by researchers (Karatepe, 2011; Chi Cui *et al.*, 2003; Avkiran, 1994). They suggest using the model, considering industry-/culture-/country-specific features. A number of researchers have adapted SERVQUAL for measuring service quality in banking (Avkiran, 1994; Bahia & Nantel, 2000; Rostamy, 2009; Abdullah *et al.,* 2011; Ladhari *et al.*, 2011).

Initially, SERVQUAL model included 22 statements grouped into 5 service quality dimensions. The later users of the instrument propose alternative scales for measuring service quality with different number of statements.

The authors also used SERVQUAL as a theoretical basis for development of one of the questionnaire sections. Initially, we proposed 28 statements for service quality evaluation that were combined into 8 dimensions: (1) physical surroundings (tangibles and atmosphere), (2) product (quality, usability, and assortment), (3) trust, (4) empathy, (5) responsiveness, (6) competence, (7) access, and (8) price. The detailed description of the questionnaire design is provided in the authors' early published research paper (Titko & Lace, 2011).

Research description and empirical results

To achieve the purpose of the given research, the authors' developed questionnaires were mailed to randomly selected bank customers and employees. A total of 301 bank customers' and 79 bank employees' questionnaires were returned. The description of respondents' profile is presented in Table 1.

Table 1. Profile of the respondents

Profile elements		Customers	Employees
Bank	Swedbank	48%	14%
	SEB bank	17%	19%
	Citadele bank	13%	34%
	Other	22%	33%
Customer/Working experience time	Under 2 years	10.3%	25.3%
	2-5 years	26.9%	32.9%
	5-10 years	47.2%	30.4%
	Over 10 years	15.6^	11.4%
Gender	Male	25.2%	-
	Female	74.8%	-
Working position	Front-office employee	-	81%
	Branch manager	-	19%

Firstly, the authors evaluated the overall satisfaction level of bank customers. The respondents were offered to answer the single question: "Overall, how satisfied are you with your bank?" Formulating the responses, we used 5-point Likert-type scale, where "1" meant "very dissatisfied" and "5" meant "absolutely satisfied".

The results indicate a sufficiently positive situation: 87% of bank customers evaluated their overall satisfaction with own bank at 4-5. 2% of respondents are dissatisfied with their banks, and 11% evaluate their satisfaction level at 3. The authors offered respondents to explain the reasons of their dissatisfaction. All the provided answers were analyzed with the program AQUAD to distil the most frequently mentioned reasons. The results of the analysis are presented in Figure 1.

Figure 1. Frequency table generated by AQUAD

The main reasons for customer dissatisfaction are price, long waiting in queue, incompetent employees and not polite service.

As for loyalty level that is represented by customers' willingness to recommend their bank to others (Reichheld, 2006), 85% of respondents expressed above-average loyalty to their banks.

To determine the most important factors of banking service quality perceived by customers and employees, we offered respondents to evaluate the importance of each factor using 5-point scale ("1" - not important, "5" – highly important). The importance weights were calculated using: (1) mean ratio, and (2) index of importance (Lebedinceva, 2007):

$$I = \frac{n(5) + 0.5n(4) - 0.5n(2) - n(1)}{N} \qquad (1)$$

I is importance index, n(5), n(4), n(2), n(1) denote the number of respondents, who evaluated the importance of service quality factors at 5, 4, 2, and 1, respectively. N is total number of respondents.

The results are presented in Table 2.

Table 2. Service quality factors' importance weights determined by customers and employees

Service quality factor	Importance for customers				Importance for employees			
	Mean	Range	Index	Range	Mean	Range	Index	Range
Product quality	4.81	1	0.91	1	4.91	3	0.96	2
Safety of transactions	4.81	1	0.90	2	4.94	1	0.97	1
Usability of products	4.77	2	0.88	3	4.91	3	0.96	2
Branch and ATM network development	4.75	3	0.87	4	4.84	7	0.92	4
Promise keeping	4.73	4	0.86	5	4.91	3	0.96	2
Competence	4.70	5	0.85	6	4.85	6	0.92	4
Trust to employees	4.67	6	0.84	7	4.94	1	0.97	1
Courtesy	4.67	6	0.84	7	4.89	4	0.94	3
Simplicity of information acquisition	4.65	7	0.83	8	4.82	8	0.91	5
Willingness to help	4.64	8	0.82	9	4.87	5	0.94	3
Branch location	4.63	9	0.82	9	4.76	12	0.88	8
Technological capability	4.63	9	0.81	10	4.80	9	0.90	6
Operational errors	4.61	10	0.81	10	4.72	15	0.86	10
Service cost	4.61	10	0.81	10	4.78	10	0.89	7
Request fulfilment	4.61	10	0.81	10	4.77	11	0.89	7
Problem solving	4.60	11	0.80	11	4.87	5	0.94	3
Prompt service	4.57	12	0.79	12	4.70	16	0.85	11
Bank reputation	4.57	12	0.78	13	4.80	9	0.90	6
Operating hours	4.56	13	0.78	13	4.70	16	0.85	11
Countenance	4.53	14	0.76	14	4.76	12	0.88	8
Product range	4.46	15	0.73	15	4.92	2	0.96	2
Individual attention	4.46	15	0.73	15	4.72	15	0.86	10
Reward	4.44	16	0.72	16	4.75	13	0.87	9
Availability of products at branches	4.44	16	0.72	16	4.75	13	0.87	9
Atmosphere	4.34	17	0.67	17	4.63	17	0.82	12
Staff appearance	4.11	18	0.56	18	4.73	14	0.87	9
Information providing	3.77	19	0.38	19	4.49	18	0.75	13
Leaflets	3.33	20	0.16	20	4.49	18	0.75	13

Evaluating the importance of bank service quality factors, both customers and employees give the priority to such factors as product quality, safety of transactions and usability of products. In general, the importance weights determined by employees are higher than those determined by customers. This is a positive situation, because there is no undervaluation of service quality importance from the viewpoint of bank employees.

In order to measure service quality, we applied the following models (Rostamy, 2009):

$$SERVPERF : SQ = \sum_{i=1}^{k} \sum_{j=1}^{N} Pij \qquad (2)$$

$$WeightedSERVPERF : SQ = \sum_{i=1}^{k} \sum_{j=1}^{N} Wij * Pij \qquad (3)$$

SQ is service quality, Pij and Wij are performance and factor importance, respectively. Service quality scores determined by customers and employees are presented in Table 3.

Table 3. Service quality evaluation results

No	Quality dimension	Evaluation by customers		Evaluation by employees	
		SERVPERF	Weighted SERVPERF	SERVPERF	Weighted SERVPERF
1	Physical surroundings	4.24	16.96	4.21	19.56
2	Product	4.36	20.34	4.31	20.98
3	Trust	4.31	20.39	4.42	21.71
4	Empathy	4.26	19.54	4.42	21.30
5	Responsiveness	4.30	19.93	4.44	21.42
6	Competence	4.08	17.98	4.12	19.46
7	Access	4.16	19.45	4.19	20.13
8	Price	3.76	17.12	4.24	20.30
	Total SQ score	**4.22**	**19.23**	**4.30**	**20.70**

Service quality score determined by employees are higher than the scores determined by customers, using both models. The special attention should be paid to such dimensions of service quality, as trust, empathy, responsiveness and competence. These dimensions involve service quality elements that depend directly on employees and can be affected by employees.

The factors that can force customers to leave their bank are presented in Table 4.

Table 4. Factors affecting customers' decision about terminating the relationships with a bank

Factor	Factor importance
Problems related to usage of bank products (problems with ATM, delay in money transfer etc.)	4.41
Frequent operational errors of employees	4.26
Negative experience with a servicing bank. Inability of bank employees to solve the problems quickly	3.81
Not polite service	3.76
Rise in commission fees	3.70
Negative information about the bank in mass media	3.64
Attractive offer of another bank	3.63
Long wait in queue	3.41
Closing the conveniently located branch	3.04

As we assumed, the competence, emotional intellect and empathy of bank front office staff play crucially important role in relationships between bank and its clients.

Despite the high level of customer loyalty in Latvian retail banking, 59 per cent of respondents are ready to break with the bank, if they receive a good proposal from another bank. On the one hand, it means that there is a rather high likelihood of loosing the existing customers. On the positive side, it means that banks have an opportunity to lure customers away, conducting an intelligent marketing policy.

The reasons why customers buy new products in a bank, ranged according to the importance evaluated by customers, are presented in Table 5.

Table 5. Factors affecting customers' decision to buy a new bank product

Factor	Factor importance
Need for a product (for instance, damage of existing credit card etc.)	4.61
Favourable terms (for instance, high deposit rates)	4.05
Recommendations of friends, colleagues, relatives	3.34
Detailed and well-founded information about a product provided by bank employee	3.07
Exclusive offer (for instance, opportunity to choose card design)	2.87
Successful advertising campaign of a bank	2.76
Willingness to get a prestigious bank product (for instance, Gold credit card)	2.61
Insistent offer of a bank employee (though it was no need for a product)	1.97

The results indicate the fact that Latvian customers are not impressible. They buy a new payment card or invest their money if a bank can make them a really good offer or if they see no alternative. However, it is crucially important to improve communication and selling skills of bank employees – 38 per cent of respondents will buy or probably buy a new bank product if an employee has good arguments pro.

The most important traits of an ideal bank front-office employee are presented in Table 6.

Table 6. The most important traits of an ideal bank front-office employee

Employee evaluation criteria	Customers' viewpoint		Employees' viewpoint	
	Importance	Range	Importance	Range
Professional knowledge	4.91	1	4.92	1
Communication skills	4.78	2	4.89	2
Behavior	4.70	3	4.89	2
Appearance	4.36	4	4.81	3
Language qualifications	4.22	5	4.01	5
Selling skills	3.95	6	4.56	4
Education level	3.73	7	3.87	7
Work experience	3.51	8	3.89	6

Customers give a priority to professional knowledge, good communication skills, courtesy and friendliness of bank employees. The viewpoint of customers is concurrent with employees' opinion on this matter.

Conclusions

Analyzing the obtained results, we can to test the research hypotheses:

H1: There is a difference between the importance weights of the service quality factors evaluated by customers and employees –PARTIALLY CONFIRMED. There is a difference, but the results are also influenced by the difference in sizes of samples. Both customers and employees have selected the same service quality factors as the most important.

H2: There is a difference between bank customers' and employees' overall perception of service quality – CONFIRMED. Applying two service quality measurement models, customers' average scores were higher than employees' scores. In case of using weighted SERVPERF model, employees' scores were higher across all service quality dimensions.

H3: There is a difference between bank customers' and employees' vision of an ideal bank customer servicing specialist - REJECTED. Both customers and employees put a priority on the same traits of front-office staff member.

Product quality and usability, as well as safety of transactions are the most important service quality elements for bank customers. However, such factors, as emotional component of service and staff competency, also play a critically important role in bank-customer relationships.

The tasks for the further research in the field are: (1) to conduct a factor analysis to approve the assumption of multidimensionality of the service quality concept, (2) to examine the difference in service quality perceptions by customers and employees in separate Latvian banks, and (3) to measure service quality in separate Latvian banks.

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