3.1 INTRODUCTION

Total Quality Management (TQM), which is about total customer service and continuous customer satisfaction, is applicable not only to the manufacturing industry but also the service sector, where the customer is just as important. Infact, customers in the service industry are more sensitive to service quality and service delivery than in manufacturing because they are always in contact with front-line service personnel. It is not the case with factory workers. These points-of-purchase contact or “moments of truth” decide whether the customer will come back or shift to the next door competitor.

The banking industry, often the biggest service industry in any country stands to benefit from TQM. For one basic reason banks depend on customer satisfaction and loyalty for their survival, but ironically, very few really pay much attention to the plight of their clients – before, during, and after sales.
In general, the bigger the bank, the more inferior the service because of complacency and bureaucracy which stifle both innovation and efficiency in customer service. The big bank can lose customers because of bad or slow service but can easily replace them with new and even bigger customers, thus making light of the service problem.

Presently banks are ranked, benchmarked, and judged of their success by sheer size, financial resources, and other quantitative measures which hardly indicate customer service quality asset base, number of ATMs (automated teller machines), number of transactions, number of depositors, amount of loans released, etc. Bank executives are mainly involved in asset management (the bigger the better), cash flow management, spread management (the wider the better), asset/liability management, and financial ratio analysis.

Friendliness is just as important as efficiency to customers. Many banks have neglected the basics in salesmanship and service: no greetings when meeting customers, no Thank You’s after any and every transaction, no Eye Contact with the customer, no Apologies for having kept them waiting. In Japanese banks, tellers are trained to thank the customer all the time even if he withdraws money, and to apologize if he was kept waiting longer than the standard time. Depositors, borrowers, inquirers, in fact, anybody who enters the bank are all treated as customers with immediate and thorough attention. In the
context of Total Quality, serving customers does not simply mean satisfying customers. Satisfied customers are not necessarily loyal customers nor repeat customers.

Customer satisfaction implies satisfying their needs and conformance to their requirements. And specifications have to be stated explicitly by customers to be satisfied.

**Delighting Bank Customers**

Customer service levels depend on whether customer needs are stated or not, and to what extent customer expectations are met. Customers state their needs either verbally or in written form in the purchase order or contracts. Customers are dissatisfied if their stated needs are not met, or if service falls below their expectations. Customers are satisfied if their needs are met within their expectations. They are delighted if their unstated needs are met within their expectations. They are pleasantly surprised if their unstated needs are met beyond their expectations.
Customer Behaviour Response

A dissatisfied customer is an angry customer. He may or may not express his dissatisfaction to the company. Most of the time he will not. But he will tell his friends about it, and your competitor will soon find out about it.

A satisfied customer is a silent and indifferent customer. He will normally not tell the company nor his friends about his satisfaction, unless asked or surveyed.

A delighted customer is a happy customer. He will express his delight to the company and his friends. He develops brand loyalty and becomes a repeat customer.

A surprised customer is an excited customer. He will write about his wonderful experience to the company and his friends. He will endorse the
company and its products to everyone and becomes the company’s most avid and credible salesperson.

In the banking industry, where products and services offered by competing banks are perceived to be of the same quality by the customer, price differentiation strategy has limited effectiveness because of the industry’s self-regulation and government controls. Banks have very little leeway in terms of varying interest rates and service charges.

To become a more competitive bank, then, customer delight is the only remaining strategic option. If bank products cannot be enhanced or varied, service quality and delivery can be improved to attract and keep clients. Examples of customer delight and surprise are as follows:

Delight: Releasing a loan before the scheduled date, e.g. 50% shorter processing time
Surprise: hand-carrying the cheque (loan proceeds) to the client’s (borrower’s) office without his requesting such services.
Delight: Greeting the customer and thanking him after and every transaction with the bank- withdrawal, deposit, inquiry, loan or card application, etc.

Surprise: Apologizing to the client after having him wait longer than usual or after causing him any kind of inconvenience or discomfort.

The objective of Total Quality Management (TQM) is to create and retain customers who would not only buy but also endorse your products and services. Customers are the best sales people because they are users of your products. Their desire to endorse them to their friends comes from the sincere delight and surprise. The company’s salesmen are the least credible endorsers because customers know they want to meet quotas and earn commissions.

The best quality strategy is to develop life-long customers by continuously delighting and surprising them ahead of the competition.
Delivering Fast and Friendly Banking Services

One is to provide speedy and convenient service and the other is to deliver warm and personalised service. While both types are desired by most customers, the difficulty lies in doing them at the same time and managing their conflicting effects or requirements. For instance, fast processing of transaction may mean less time for personal touch and friendly exchanges with the client. Such haste may be taken negatively by sensitive customers. On the other hand, warm service may require slower pace of work, longer queues, and waiting time which may irritate the next client who has a busy day ahead of him. It is said that people in the rural areas are not particular about speed and may tolerate slower service so long as they get to talk at leisure with the service provider or teller about their needs and problems.

Electronic banking, in the form of ATM and internet-based cyber-banking or home-banking, is one popular mode to achieve speedy and convenient service. The principle is to eliminate the human interface or middleman and let the customer into the bank’s systems to browse and decide for himself what he wants to do or have. The moment of truth or contact between customer and bank shifts
from man-to-man to man-to-machine. The phenomenal success of the ATM comes from the fact that only about 25% of clients visit their banks regularly. Electronic banking, while a welcome development, has several problems and limitations. First, it provides limited choices of services or transactions, primarily withdrawals, deposits, and balance inquiries. Secondly, it cannot respond to or take care of special problems or needs. Thirdly, it requires customers to look for ATM sites which may be inconveniently located. Fourthly, it requires special hardware and computer literacy in case of home banking.

Several banks have taken initiatives to address these limitations of electronic banking in an effort to make it as warm, responsive, and flexible as the human counterpart it replaced. For instance, the multimedia Open Banking Terminals of the United Overseas Bank (UOB) of Singapore use color, sound, and animation to provide service with fun. They can even show scanned images of customer’s checks for his confirmation. The ATM service of Allied Bank of Malaysia, known as PAL Virtual Kiosk, aside from providing regular transaction services, allows users to meet a bank staff face to face in head office through its advanced touch-screen terminal. The client feels he is really dealing with a live teller.
Another thrust in making electronic banking more user-friendly is enhancing its accessibility and increasing its range of services. Many banks have extended the uses of the ATM card-like debit cards, credit cards, and identification cards. Holders of Mega link ATM cards in the Philippines can use over 2,000 Pay link terminals located in 500 supermarkets, stores, gasoline stations. The ATM card doubles up as a convenient point-of-sale debit card. The Hong Leong Bank of Malaysia launched an internet-based cyber banking called BANK@HOME that can provide multi-tiered savings deposits with checking facilities and trust funds. The advanced electronic technology of International Exchange Bank of the Philippines provides for instant inter-branch signature verification and allows clients to encash a check in any branch. This desirable and convenient feature is rare in the local banking industry. The Bank of Philippine Islands (BPI) also extended its ATM services to the rural areas to cater to the banking needs of farmers and other countryside clients. Its Country Net provides 24 hour ATM service and interconnection with other countryNet member bank. This is a welcome development as only about 2% of the thrift banks in the country are members of the city-based ATM networks, namely Express Net of BPI, Megalink, and Bancnet. Banks using the cyber-banking services and software of check-free,
based in Ohio can give their clients more than the usual fund transfer services. It can allow for receipt and payment of households bills through e-mail, personal finance planning and management, and investment tracking and advice.

In an effort to make banking service more convenient and friendly, some banks have set up manned kiosks or service centres that can provide banking service outside normal hours and in locations banks are not usually present. Bank Artha Graha of Indonesia has set up 50 such cash offices or kiosks, each staffed by 2-3 account executives, and located in shopping malls and hospitals. They can accept deposits, bills, payment, and can cross sell the bank’s other products like cellular phone and travel services.

The latest trend in making banking service fast and friendly is customer data warehousing that allows for analysis of customer backgrounds and transactions for trends. The analysis can be used for product improvement and redesign, cross selling, and anticipating customer needs. With advanced background information about the customer, paper work and long application forms can be cut, if not eliminated. Thai Farmers Bank is using data warehousing to understand its clients and perhaps discover latent needs and opportunities.
According to one bank executive, it should be easy to find out the total transaction of a customer even if he uses several accounts, the customer with the highest deposit or withdrawal for the day, financial status analysis from payroll processing data, and house size analysis from electric bill payments made to the bank.

As banks apply total quality management principles to improve competitiveness and increase customer loyalty, the choice between speed or smiles remains an issue in service redesign. But the real challenge is how to make banking service fast and friendly at the same time.

**Service Quality – Main Conceptualisations and Critique**

Conceptualisation and measurement of service quality perceptions have been the most debated and controversial topics in the services marketing literature to date. This article analyses the main debates about how to conceptualise service quality – about the nature of perceived service quality (perception of performance vs. disconfirmation) and the formation of service quality (single construct vs. aggregation of several dimensions). It explores the
main theoretical viewpoints and seeks supportive empirical evidence. It syntheses of different theoretical viewpoints and ideas for further research are discussed.

**Nature of Service Quality**

The traditional conceptualisations of service quality are based on the disconfirmation paradigm- perceived quality is viewed as the result of comparing particular performance with some kind of a standard. For example, Gronroos has defined the perceived service quality as the outcome of an evaluation process, where the customers compare their expectations with the service they have received (Gronroos 1984, p.37)\(^\text{104}\).

Parasuraman, Zeithaml and Berry support the same view, defining the concept of service quality as a form of attitude, related, but not equivalent to satisfaction, that results from a comparison of expectations with perceptions of performance. Expectations are viewed as desires or wants of consumers, ie., what they feel a service provider should offer rather than would offer.

Cronin and Taylor (1992)\textsuperscript{105}, however, argue that the conceptualization of service quality as a gap between expectations and performance is inadequate. They point out the confusion in pertaining literature over the relationship between service quality and consumer satisfaction. According to them, the concept of service quality should be customers’ attitude towards the service, since the concept of satisfaction is defined as a gap between expectations and performance or disconfirmation of expectations. As attitude-based conceptualization would argue for either an importance- weighted evaluation of specific service attributes or even just an evaluation of performance of specific service attributes (Cronin, Taylor, 1992)\textsuperscript{106}. Later, several authors have supported their view.

Teas (1994)\textsuperscript{107} also criticizes the conceptual foundation of the disconfirmation paradigm, citing the theoretical impossibility that those performance levels that exceed a consumer’s ideal standard should be evaluated higher than those that are ideal. Teas developed alternative models of perceived


\textsuperscript{106} Ibid.,

service quality based on evaluated performance and norm quality, concluding that the evaluated performance model could overcome some of the problems associated with the performance-expectancies gap in conceptualization of service quality.

**Formation of Service Quality**

Traditional service quality models considered perceptions of service quality as based on multiple dimensions or components, and the majority of the latter studies have done the same. As service comprises a complex bundle of explicit and implicit attributed (Parasuraman et al., 1988)\(^{108}\), it is logical to assume that the customers overall evaluation should include evaluations along these attributes. Service quality is not viewed as a separate construct, but rater as an aggregate of several dimensions or components. But there is no general agreement either about the nature or the content of the dimensions.

Gronroos (1984)\textsuperscript{109} has divided the customers’ perceptions of the service process into two dimensions:

1) Technical quality – the outcome dimension, or what the process leads the customer to as a result of the process;

2) Functional quality – the process dimension, or how the service process functions.

Customers perceive the quality of the service in these two dimensions – what they get and how they get it. Image, of a company at a local level, serves as a filter that influences quality perception either favorably, neutrally, or unfavorably, depending on whether the customer considers the service provider good, neutral, or bad. In 1994, Gronroos and his colleagues have provided the model with a broader, dynamic perspective, adding the need for enduring customer relationships as a context of perceived service quality (Gronroos, 1994)\textsuperscript{110}.


U Lehtinen and J.R. Lehtinen (1991) have proposed that service quality can be viewed as three-dimensional;

1) Physical quality,
2) Interactive quality,
3) Corporate quality.

Physical quality includes the physical environment and instruments (as tableware in restaurants), interactive quality derives mainly from whether the service provider’s interaction style fits in with the customers’ participation style. Corporate quality is mainly the evaluation of corporate image. These dimensions can be considered as the basic sources of quality in a service company. Lehtinen and Lehtinene have also compared their three-dimensional approach to Gronroos two-dimensional one, which is based on the natural main parts of the service production process; the process itself and its output are more or less an action approach in which time is included. The above two approaches have points of contact, but do not completely overlap. The approaches have different levels of abstraction and Lehtinen et al., have considered the two-dimensional approach to be a higher-level or more abstracted approach. Physical quality is related to both process and output dimensions, interactive quality to process quality, but corporate quality can be evaluated already before the service process. Lehtinen et
al., suggest that the dimensions influence each other as the process affects the result of the service.

Parasuraman, Zeithamal, and Berry (1988; 1991; 1993)\textsuperscript{111} have proposed a more specific list of service quality dimensions. According to them, the overall evaluation of service quality derives from the evaluations along five dimensions:

1) **Tangibles** – 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** – knowledge and courtesy of employees and their ability to inspire trust and confidence;
5) **Empathy** – caring, individualised attention that the firm provides to its customers.

Service quality is an average of the expectancy-performance gaps along these five dimensions.

Brady and Cronin have suggested that each of the primary dimensions of service quality (interaction, environment and outcome) has three sub dimensions, and customers aggregate their evaluations of the sub dimensions to form their perceptions of an organisation's performance on each of the three primary dimensions. Customers form their service quality perceptions on the basis of an evaluation of performance at multiple levels and ultimately combine these evaluations to arrive at an overall service quality perception (Brady, 2001)\textsuperscript{112}.

The most recent works in this field have studied service quality as customers’ overall evaluations of service quality and the factors relevant to service quality are conceived of as its antecedents rather than its components (e.g., Dabholkar, Shepherd, Thorpe, 2000)\textsuperscript{113}. This means that consumers not only


evaluate different factors/attributes related to service, but also form a separate overall evaluation of service quality (which is not a straightforward sum of the components). Dabholkar and his colleagues consider the component-to-antecedent transition to be a natural progression in the development of constructs.

A comparison of different views about how service quality should be conceptualised reveals also some coincidences in the works of different authors. For example, some differences about the dimensions of service quality, on the one hand, derive only from the differences in phrasing the factors; on the other hand, from the different generalisation levels of the factors. The dimensions in the models suggested by Gronroos and Lehtinen et al., are the most general ones, whereas those put forward in the works of other authors are more specific and given at a more detailed level.

Connecting the different theoretical works, a general framework of perceived service quality can be developed indicating the main shared and diverging points in the theories. It is based on the main parts of the service
delivery process, distinguishing between the process and outcome of service as the general dimensions that customers use to evaluate service quality. The third main dimension is the environment that includes corporate image/quality and physical surroundings in a service place. The content of the main factors and relationships with overall evaluation of service quality is different in different works presents examples from several authors. The figure indicates also the main questions about the nature and formation of service quality (grey boxes in the figure referring to questions that follow).

**Evidence for the Nature of Service Quality**

Among all the measuring instruments of service quality, the SERVQUAL scale has attracted attention most of all (Parasuraman, Zeithaml, Berry, 1988; 1993). This instrument measures service quality as a computable gap between customers’ expectations about the service and their actual evaluations of that service in five dimensions.

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114 Ibid.,
Cronin and Taylor (1992)\textsuperscript{115} were the first to provide a theoretical justification for discarding the expectations part of SERVQUAL in favour of mere performance measures included in the scale. The term ‘performance-only measures’ has thus come to refer to measured service quality that is based only on consumer’s perceptions of the performance of a service provider, as distinct from a gap between the consumers’ performance perceptions and their expectations. The authors named their scale SERVPERF. Several studies have shown that the performance-only SERVPERF scale outperforms the disconfirmation – based SERVQUAL scale.

As an answer to the critique from Cronin and Taylor (1992)\textsuperscript{116}, Parasuraman, Zeithaml and Berry wrote an article, affirming that even though their scale has problems with validity and reliability, several studies have shown that perception – only scores outperform the gap score. The expectations part provides the benefits of richer, more accurate diagnostic information. The effect of customer’s prior expectations on their perception and processing of information has likewise been revealed by other studies, but their authors have

\textsuperscript{115} Ibid.,
\textsuperscript{116} Ibid.,
considered expectations as an important influencing factor among others, not as
a component of perceived quality.

Evidence for the Dimensions of Service Quality

The dimensions of service quality are also studied by means of the original
or modified SERVQUAL scale. Published studies include several service fields:
Retailing (Carman, 1992; Finn and Lamb, 1991; Zhao, Bai, Hui, 2002)\textsuperscript{117}, hotels
(Saleh and Ryan, 1992)\textsuperscript{118}. A detailed overview of the use of the SERVQUAL scale
in various studies can be found in Buttle (1996). Without doubt, SERVQUAL has
been widely applied and highly valued.

However, an analysis of the results of studies indicates that the problems
with the number and nature of the dimensions have remained unsolved. Up to
nine distinct dimensions of service quality have been revealed, the number
varying according to the service sector under investigation. For example, nine

\textsuperscript{117} Carman, J.M. "Consumer Perceptions of Service Quality, An Re-examination and

\textsuperscript{118} Salch, F. and Ryan, Analysing Service Quality in the Hospitality Industry Using the
factors accounted for 71% of service quality variance in hospital research: Admission service, tangible accommodation, tangible food, tangible privacy, nursing care, explanation of treatment, access and courtesy afforded to visitors, discharge planning, and patient accounting. Five factors were distinguished in the work in the hotel industry – conviviality, tangibles, reassurance, avoiding sarcasm, and empathy – and the five factors together accounted for 78.6% of variance in service quality, etc. In 1994 the authors of the SERVQUAL scale – Parasuraman and his colleagues – tested their scale again and had to agree that the SERVQUAL scale actually had problems with factor loadings – the factor structure differed from that of their original 1988 study and the factor analysis indicated only three dimensions: reliability, tangibles and the third one where responsiveness, assurance and empathy had been blended into a single factor.

**SQ and Customer Satisfaction**

As noted by Rust et al. (1994); understanding of the concept of satisfaction is necessary for managing SQ effectively. Satisfaction loosely means ‘enough’ or enough to excess’. Thus, customer satisfaction can be defined as the customers’ fulfilment response. It has also been described as a process by the most widely
adopted of process theories is that of expectancy disconfirmation in which satisfaction is viewed as largely based on meeting or exceeding expectations.

The characteristics discussed in the introduction make the concept of quality in service different from the ones in manufacturing goods. That means quality should be a measure of customer satisfaction in services. Therefore, a bank that committed to deliver high quality service must pursue consistent customer satisfaction.

However, adopting SQ effectively in Islamic banking management requires a clear understanding of what SQ means to their customers. Thus, Islamic bank management must measure the overall customers’ satisfaction and understand the nature of SQ and customer value and how these features interact.

This study also assists further testing of the validity of the CARTER model by adding three questions to the survey: Overall satisfaction, Satisfaction with personal contact and Satisfaction with SQ.
New Trends in Services Distribution and Delivery

Innovative strategies for distributing and delivering services ensure a better competitive advantage over rivals and can give a service provider the edge to get ahead of the competition.

Until a decade ago, banks were brick and mortar institutions that usually allowed customers to conduct their banking needs between 10 am and 5 pm. The customer would have to go to the bank, come rain or shine if they wanted their work done. But now a plethora of initiatives have transformed the distribution and delivery of banking services. Apart from extending the hours (9 am to 8 pm) customers can transact their banking using:

- The Internet
- The ATM
- The Telephone
- Calling the banks’ representative home.
What is noteworthy is that by enabling customers enjoy more convenience, the bank has not only won the hearts of customers, but also technology-enabled automated systems. This has resulted in lesser transaction costs for the banks.

<table>
<thead>
<tr>
<th>Type of interaction between the Customers and service provider</th>
<th>Service Distribution and Delivery Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers going to the service provider</td>
<td>Make services easily accessible to customers (location should be) Make the process service delivery smooth,</td>
</tr>
<tr>
<td>Service provider coming to the customer</td>
<td>easy and enjoyable for customers (they should feel welcome at the venue)</td>
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<td>----------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Give complete details of the service aspects to the customers to enable easy decision making (a detailed brochure). Go prepared to ensure that the specifications cater to the unique conditions of the customer.</td>
<td></td>
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</tbody>
</table>

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<tr>
<th>Customers and service provider meeting to transact.</th>
<th>Delivery should be easily accessible to the customers and at least attendant cost. When interaction is not direct, care should be taken to explain in detail all aspects (especially financial charges, etc) to ensure there is no room for doubt.</th>
</tr>
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</table>

**Importance of Superior Customer Service**
The use of a service has been based on

1. Service quality
2. Quality of service delivered
3. Commitments
4. Continuous innovations
5. The first experience with the service and
6. Simplicity of the process acquisition

An organisation exists to meet the needs of the customers and to serve them. To serve the customers better, the organisation should focus on its employees, who provide the service to the customers, and make them an integral part of the service strategy. Combining this with the technological advancements, which enable quicker and better services a services organisation, can arrive at the right formula for success in the service industry. Once an organisation, develops a strong set of people and technology to provide seamless service experience to customers, the same becomes a competitive advantage for the firm. Service quality due to people and technology can also translate into a key differentiator for the service provider and can be leveraged while marketing the service provider and can be leveraged while marketing the service. Superior service cannot be delivered unless the firm has a highly committed and customer- oriented team.
The Gaps in Service Quality

The following reasons can be attributed to this:

- Word of mouth, past experience and brand promise through communication lead to a certain level of service expectation among the customers.
- This expectation is continuously being benchmarked against what the customer gets in reality, during his interaction with the service provider.
- The gap between what was expected and what is perceived/experience in reality decides the satisfaction score that the customer finally gives to the brand/service.

Reasons for these Gaps

- Under-preparedness of the organisation to meet the customers’ expectation and size.
- Wrong inputs and wrong promise to customers leading to wrong bill and disputes.
• Lack of training, inadequate manpower and continuous attrition to the ability to manage the customer service on a sustainable basis.

• Use of new technology to support the back-end operation, which results in delay in understanding and implementing the new system.

• Continuous promotion and focus on new customer additions, giving no time to correct the past issues with customers, leading to accumulation of problems with all customers.

• Low morale, due to high pressure to set things right. The higher the pressure on the employees, the less will they enjoy working, and that is the beginning of the customer service.

• Highly centralised processes, which are not customer-centric, delaying the decision, marking to solve customer issues. Most customers go out of the service, when their issues are not resolved in time.

• Low empowerment levels for customer interfacing employees.

Ten Elements to Remove these Gaps

Communication:
The communication strategy should promise less, and must be developed only after thorough preparedness of the entire sales and service delivery team. In addition, the customers should be continuously informed of changes, new introductions and benefits.

**Make Tangible the Intangible:**

Though the service is intangible, it can be tangible through product/service benefits, aesthetic and continuous innovation. Telephony service, internet banking, have all revolutionised customer experience.

**Reliability:**

Ability to consistently deliver the promised service will make the service reliable, and reduce the gaps in customer experience.

**Responsiveness:**

Willingness to listen and respond to customers in time is the most critical element the customers look for.

**Assurance:**
The trust and assurance the employees can bring to the customer can help in removing the gaps. The assurance should be clearly understood by the customers, and should be made only after thorough checking internally on what is possible.

**Empathy:**

Caring and personalised attention to customers will play a big role in removing the gaps, as customers do not want to be treated as another compliant, but as an individual with a unique complaint.

**Empowerment**

Service organisation cannot be run top to bottom, and decisions cannot be the domain of a few top managers. Every employee interfacing with the customers should have empowerment levels clearly defined, in order to handle the customers’ issues effectively and to remove the gaps in the service delivery quickly.
Measure:

Every customer-related activity should be measured daily, be it customer care operations, billing, collection, complaints, query resolutions, touch points. Only when you measure, improvements are possible and every one becomes alert.

Walk the Talk:

In a service organisation, every one should follow this credo from top to bottom, to develop trust among customers.

Customers Relationship:

Customers who enjoy good relationship become the service champions in the market place, replacing the need for advertisement. The expectations of the customer can be understood, fine-tuned and met through continuous interactions and feedback process.
3.2 MODEL OF SERVICE QUALITY PERCEPTION

The present study is based on the SERVQUAL / SERVPERF Model suggested by Parsuraman, Zeithaml, and Berry (1988)\(^ {119}\), which explains the service quality on the basis of gap between perceived service quality and expected service quality.

This model is different from other models as it helps in finding out more than one aspect of service encounters. Rust and Oliver in 1994 in their research showed that overall service quality perceptions are based on various dimensions of service encounters\(^ {120}\).

Figure - 3.1

Model of Service Quality perception


Involvement of Customers in Self-Service Operation

ATMs are the best examples of this kind of service offered by banks. The customers need not go to banks at the appointed hours and wait for the service by the employees in the banks. The ATM service is available 24 hours a day and hence the customer can do the banking at his convenience as a self-service.

Creation of Centralized Customer Service Backed by Computerised File System

Some of the banks have at present established a network among their branches so that an account-holder at one branch can do banking in any other branch of the same bank, irrespective of their location, whether in the same State or even outside. This saves the customer from the burden of carrying cash or bank credit or traveller cheque, etc., during travel.

Recording Customer Information in Easily Assessable Data Banks

Recording the customer information is another boon to the user. The customer can have access to all the information about his debt and credit position at any point of time. This will help him to plan his activities with respect to funds/facilities available.
3.4 FIVE STARS OF SERVICE QUALITY

A reputation of good quality is a major advantage perception of risk for many service consumers is very high. The good quality bridges the gap between pre-use perceptions and post – use experience of the service consumed. The perceived quality of service depends upon following factors termed as five stars of quality.

Five Stars of Service quality are:

- Reliability
- Assurance
- Tangibles
- Empathy
- Responsiveness
(To remember this, use word RATER which stands for Reliability, Assurance, Tangibles, Empathy, Responsiveness).

**Reliability**

Reliability refers to ability to perform the service dependably and accurately. No doubt reliability is a critical factor but in some cases it becomes essential dimensions.

**Assurance**

Assurance is knowledge, courtesy of employees and their ability to convey trust and confidence. Trust and confidence building is an important consideration in positioning. Service providers have effectively used assurance for positioning the organization or its offering.

**Tangibility**

Tangibility relates to physical facilities, equipments, personnel and communication materials. Tangibility is used by hotels, restaurants, tourism, and retailers. As the tangibles of a service are highly visible elements, they must be designed such that they are consistent with positioning approach.
Empathy

Empathy relates to caring attitude, individualized attention the firm provides to its customers.

Responsiveness

Responsiveness relates to willingness to help customers provide prompt service.

3.4 THE THREE – COMPONENT SERVICE QUALITY MODEL:

According to Rust and Oliver, the perception of service quality is based on the following three dimensions of the service encounter: They are:

Functional Quality (FQ):

- It is otherwise called as the customer employee interaction. This aspect refers to the service delivery of the staff to the bank customers.

Environment Quality (EQ):
It is otherwise known as the service environment this refers to the tangible and intangible infrastructure that supports better service delivery.

**Technical Quality (TQ):**

- It is also known as the outcome for service product. This measures the product offered and relates to the tangible benefits which directly affect the bank customers.

Figure 3.1, figure 3.2 and figure 3.3 exhibit the various models of service quality perceptions.

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**Figure – 3.2**

*The Three Component Model of Service Quality (Rust & Oliver 1994)*
Figure - 4.3

Gronross Model of Service Quality (1984)

Figure 3.3

Gronross Model of Service Quality

Perceived Service Quality

Expected \[\rightarrow\] Perceived
3.5 NATURE OF SERVICE QUALITY

The traditional conceptualisations of service quality are based on the disconfirmation paradigm—perceived quality is viewed as the result of comparing particular performance with some kind of a standard. For example, Gronroos has defined the perceived service quality as the outcome of an evaluation process, where the customers compare their expectations with the service they have received (Gronroos 1984)\textsuperscript{121}.

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\textsuperscript{122}Ibid.,
satisfaction, that results from a comparison of expectations with perceptions of performance. Expectations are viewed as desires or wants of consumers, i.e., what they feel a service provider should offer rather than would offer.

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Teas (1993: 1994)\textsuperscript{124} also criticizes the conceptual foundation of the disconfirmation paradigm, citing the theoretical impossibility that those performance levels that exceed a consumer’s ideal standard should be evaluated higher than those that are ideal. Teas developed alternative models of perceived service quality based on evaluated performance and norm quality, concluding that the evaluated performance model could overcome some of the problems associated with the performance-expectancies gap in conceptualization of service quality.

3.6 WHY QUALITY IN SERVICE?

There can be no substitute for high-quality personal interaction between service employees and customers. Use quality practices:

- to understand and improve operational processes.
- to identify problems quickly and systematically.
- to establish valid and reliable service performance measures.
- to measure customer satisfaction and other performance outcomes.

3.7 MEASURING SERVICE QUALITY

Measuring Quality in the Services Sector and in particular in the Banking sector, is more difficult than measuring the quality of manufactured goods. This is mainly due to the following:

- The Services Sector as a whole is very heterogeneous and what is very heterogeneous and what may hold true for one service may not hold true for another service sector. For example, the nature of banking services is very different from, say, the nature of services provided by an airline or a hotel. Even within banking there are a variety of dissimilar services like retail banking, commercial banking, investment banking etc. This heterogeneity makes standardized service quality measurement very difficult. Most manufacturing companies, on the other hand, have been able to adopt standard measures to improve the quality of goods produced.

- Services are intangible in nature and, unlike in the case of goods, there is no ‘real’ product that the customer takes home. This is true of banking services and most other financial services where the service offered is only what the customer experiences fleetingly. Some service sectors like the hotel
industry, the tourism industry etc. provide services that may be considered somewhat more tangible.

- There is no scope for inspection before the service delivered. All services have a here-and-now attribute that makes standardised quality testing and control procedures followed by manufacturing sector difficult to adopt. Unlike a good manufacturer, a bank cannot inspect its services and products to weed out unsatisfactory ones before they are presented to the customer

- Unlike in the case of manufacturing companies where the goods are manufactured and then sold to customers, in the services sector, the customer is a part and parcel of the process that provides the service. The service is created with the involvement of the customer. If there is no customer there can be no service. In this sense, the customer is inseparable from the service. This is especially true of banking services, both retail and corporate. Customers are central to the banking service that is sought to be provided.

A bank must have the customers as the focal point and as such Customer Satisfaction is a good determinant of the Quality of Services provided by a bank. A
customer could be an external customer such as an account holder at the bank, or an internal customer such as a colleague from another department who requests information. It is important to understand that both internal and external customers are important for long term quality development and improvement.

3.8 BANKING SERVICES: TECHNICAL QUALITY AND FUNCTIONAL QUALITY

Service Quality can be thought of as having two dimensions: Technical quality and Functional quality. Technical Quality refers to ‘what’ the bank gives the customer. Functional Quality refers to ‘How’ the bank’s services are provided to the customer.

Technical Quality

To ensure that it delivers technical quality, the bank must ensure that

- Its products and services are closely aligned with customer needs.
- Customers are adequately informed about the bank’s products and services
- The bank’s staff, especially front-line staff, have thorough knowledge of the bank’s products and services
- The bank’s branch has a suitable mix of people with experience in banking, finance, accounting and legal aspects, so as to ensure that the branch is adequately equipped to deliver technical quality.

- The bank’s staff has been adequately correspond with customer queries.

- The bank’s staff is able to effectively communicate with customers – staff should also be able to converse in the local language, if required.

- The bank’s staff is able to provide professional advice to its customers.

- The bank’s staff, especially front-line staff, has been adequately trained to deal with ‘difficult’ customers and with customer complaints.

- Handling of customer grievances is the overall responsibility of a senior official who is not directly involved with the routine branch banking operations.

**Functional Quality**

Functional quality is concerned with how the service is provided to the bank’s customer. A few elements that affect a banking service’s functional quality include:

- Attitude of the bank’s staff members.
Importance given to the bank’s customers over routine work.

Perceived credibility of the bank’s officials to customer queries

Ambience at the bank

Ability to hold discussions with senior officials

Image of the bank as a whole

A bank must be equipped to deliver both Technical and Functional quality thus ensuring that it provides its customers with total quality service. Relevant qualitative determinants could be set up for a few technical and functional quality parameters, but most of these remain difficult to quantify. A bank could set up appropriate policies and procedures, for example recruitment policies, to create enabling conditions for providing technical and functional quality to its customers. The ultimate focus should firmly be on providing quick and cost-effective quality banking services.

**Ensuring Customer Satisfaction**

How does the bank ensure the customer’s satisfaction? It does so by:

- Determining what satisfies the customer
- Devising suitable quantitative determinants
• Continually measuring and improving these parameters

• Seeking customer feedback from time to time to ensure alignment with customer needs

**Branch premises and Customer Lounges**

Is the branch easy to reach?

Are the branch premises pleasing and comfortable?

Are the customer lounges well maintained?

Are there sufficient sofas for waiting customers?

Is drinking water available to customers?

Is there adequate reading material?

Is the reading materials stock regularly updated?

Is there sufficient variety of reading matter available?

Does the reading matter conform to the reading tastes of the bank’s customers?

Are the customer lounges being adequately used to highlight the bank’s achievements etc?

Do customers look lost on entering the branch and is help readily available?

Are the security personnel courteous and watchful?
ATM

Is the ATM conveniently located?

Is it easy to access?

Is there adequate parking space available?

Are the ATM premises well maintained?

Are writing material, deposit envelopes, etc. easily available?

Is the security person polite and helpful?

Is the ATM frequently ‘not working’ on holidays etc?

Are the ATM premises being suitably used for the bank’s publicity?

Is the ATM easy to use?

Is there help available to customers who may need it?

Are the facilities offered at the ATM on par with the facilities offered by other banks?

Technology

Has the bank adopted relevant technology best suited to its customers’ needs?

Are the staff members adequately trained to use the bank’s technology systems to better serve customers?

How does the bank compare with others in the industry?
Does the bank continuously upgrade its IT systems?

Is training available to employees who may need them?

Is there a suitable Disaster Management system in place?

Is the troubleshooting team equipped to handle minor problems?

**Publicity**

Are the bank’s press advertisements aligned to the needs of the target customers?

Are the other publicity initiatives in keeping with the bank’s image and suited to the target client profile?

Is the bank featured regularly in articles relating to banking?

Does the bank take interest in sponsoring socially relevant causes?

Does the bank have an image of socially and environmentally conscious bank?

**Bank’s Staff Members**

Are senior officials available to customers who wish to meet them?

Are the branch staffs polite and courteous?

Are they able to provide accurate information to customers?
Do they have a strong customer focus?

Do they their regular customers or do they appear grumpy and preoccupied?

By way of comparing the results of above questions with the actual work done by the bankers, the banker can improve their quality service to its customers.

Adopting and Measuring Customer Service Quality (SQ) in Islamic Banks: A Case Study in Kuwait Finance House (KFH)

The operation of Islamic bank derives from the Islamic Law and thus differs in spirit, cultural background and practice from conventional bank operations. Because of the strong competition, customer expectation to receive high quality services and quick changes of technology, Islamic banks must therefore think strategically by providing high quality products and services to satisfy their customers. This study indicates that it is important for Islamic banks to put cultural differences at the front when adopting SQ, and suggests a new model to measure SQ called CARTER which is based on 34 items. The study shows validity significant for all CARTER items that have appearance in both important items
weights and percentages. Also, the strong link between SQ and customer satisfaction has been discussed and the study has defined it as a system of CARTER – items which processes inputs and overall satisfaction outputs. Finally the study suggests a scenario plan for KFH to adopt SQ and shows the importance of training to do so.

Angur et al. (1999)\textsuperscript{125} noted that the debate on SQ began in 1985 in the marketing literature and significant contributions to the literature have also been made by those working in the field of operation management and organisational behaviour. Thus, the research done in the area of quality in the banking industry has been found in many scholarly journals both academic and practitioner papers. Some of these studies on the one hand deal with definitions and overviews of SQ, dimensions and measurements, and others carried out by practitioners or researchers focus on the importance of SQ, functional areas of the banks, assessment and successful implementation of current practice. Table 1 below summarises some of these researches on the area of building SQ dimensions in banking industry.

The findings indicate that consumers have well-conceived ideas about SQ, and that certain quality attributes are considered important for most types of services which were examined including banking. They explain the problems associated with the measurements of quality of services and present a set of indices to provide measures of expectations, perceptions, and overall satisfaction. A quality of the UK banks’ services which provided to small firms has been measured. The method was applied to the above example.

It designs and examines six-dimensions model for SQ in banking industry (Responsiveness, Empathy, Staff conduct, Access, Communication and Reliability) with 27 items. The six dimensions with 27 items were empirically reduced to 17 items across four factors. The dimensions to emerge are staff conduct, credibility, communication, and access to teller services. The instrument’s reliability, dimensionality and validity have been empirically tested. The results are encouraging both in their own right and when compared with other studies.

This research attempts to identify dimensions of loan/overdraft services which banks and building societies provide to students, and also in relation to the trial of a graphic positioning scale to measure students’ expectations and
perceptions. Even so, the results suggest a number of areas where the banks and building societies might pay attention to improve their ‘relationships’ with students.

It represents a list of characteristics of bank quality as perceived by customers, identifies the underlying dimensions of bank quality and assesses the importance of the characteristics as also perceived by them. Seven factors were found in determining bank quality. They include; employees and employee/customer interactions, the number of accessible and working ATMs, company structure, and four available services. Over 82% of the respondents felt that banks provided quality service.

These studies classify the determinants of SQ into those that are predominantly satisfiers and others that are predominantly dissatisfiers. The findings indicate that the intangible aspects of the staff-customer interface have significant effects, both negative and positive, on SQ. They also provide managers with a framework to assess the likely impact of any SQ initiative in terms of its effect and importance.
Midland’s quality programme has a common weakness that it ran it informally and without clearly defined programmes for implementation and measurements. Also, this study indicates that members of quality committees, QCs, were positive in their views towards QCs’ effectiveness. A change in actual performance is the most relevant measure.

Findings from this study provide initial direction in determining the proper SQ attributes to focus on during promotional efforts when banks have a target market at least partially defined by gender and age. Further, gender and age are not the only characteristics on which marketing efforts should be based. Therefore, other segmentation variables, such as psychographics, geographies and benefits sought, must be considered when developing marketing and advertising strategies.

The findings indicate that credit unions rate is significantly higher than banks on 11 of the 14 SQ questions: access; courtesy; communication; credibility; security; empathy; tangibles; basic service; fairness; fixing mistakes; and guarantees. Also they indicate that neither banks nor credit unions do a good job of surveying customer needs or retaining customers.
It examines the effects of SQ on customer satisfaction by utilising a sample of international private banking customers where SQ is operationalised via two measures SERVQUAL and Technical/Functional Quality.

The findings report that changing account managers was negatively associated with the bank’s external effectiveness as measured by the customers’ judgments of satisfaction and SQ, their purchase intentions and their willingness to recommend the bank.

**Integrating Quality Management, Creativity and Innovation in Islamic Banks**

Islamic banking transactions and organisations have been growing in the last decade in response to increasing demand. Simultaneously, however, Islamic banks face challenges from non-Islamic institutions because of the mergers of several institutions, inter-organisational collaboration, introduction of new products and services, improved services, and so on. Other contemporary challenges include continuous environmental change, the speed of change, the impact of the Internet and mobile banking, and the need for an international
focus. To respond effectively to these challenges, Islamic financial institutions need to establish management systems that integrate quality management, creativity, and innovation. This paper presents a framework for such a management system and discusses its implementation.

Continuous Improvement and Employee Participation in SMEs

The active participation of all personnel is the basis for continuous improvement in companies. This paper describes the main features of systems for channelling such participation, used in a series of companies in the automotive parts industry in the Northwest of Spain. These characteristics were obtained from research carried out in mid-1997 and based on personal interviews. Likewise, the great spread of this kind of practice found in this supply industry, mainly made up of SMEs, supports the idea that it is not only applicable in large companies. However, it should not be forgotten that the automotive sector has one of the longest traditions in continuous improvement and employee involvement activities.
Marginalisation of Quality: is there a case to answer?

This paper makes the point that since the early 1990s there have been signs (e.g. the move from quality and total quality management (TQM) to excellence, and process control to process management) that quality and TQM are perceived by some commentators to be out-of-date and fallen by the wayside. The paper outlines these signs and points out that they can lead to a marginalisation of quality. However, through major trends such as business to business e-commerce and six sigma there are clear indications that old style quality is coming back into the business arena because of the savings it can bring. These trends and their implications are examined in the paper.

The ISO 9000 standards were first published in 1987. A first, more limited revision was completed in 1994. There is now a more thorough revision underway. A first draft of the suggested new standard was published in July 1998 and a second draft, expected to be very close to the final version, in February 1999. The changes proposed in these drafts are described and discussed. Summing up, the standard is changing from a technical-practical tool to a management tool. Four problems with this development are discussed: the sum of demands on management; the comparative strength of the ISO 9000 standard
concept; the changed role of the certifying bodies that this change implies; and the implied paradigm of management. The consequences of this may be that the standard turns into a legitimacy seeking management concept alongside other popular “three–letter acronyms” and thereby adds to the growing amount of hypocrisy in management. This is the year 2000 problem for the ISO 9000 standards.

The interest in total quality management (TQM) has increased rapidly in recent years. Some people see TQM as something necessary to reach competitiveness but others claim TQM to be merely a management fad. We believe that there are several reasons for the different opinions about TQM. One is that the gurus, who often are seen as fathers of TQM, do not like the concept. Another one is that there are several similar names for roughly the same idea. A third one, which maybe, is the most severe, is that there are many vague descriptions and few definitions of what TQM really is. In this paper we will discuss some of the problems with TQM and describe and discuss our own view of TQM as a management system consisting of the three interdependent components: values, techniques and tools. We strongly believe that this definition will help to understand and implement TQM.
While total quality management (TQM) has been widely applied in the management of change, and is likely to remain a priority into the next century, failure rates at times above 75 per cent give cause for concern. The study on which this paper is based has reviewed TQM as an approach to change management. Four interrelated classifications of organisational change are presented: change as structure (or “functional change”), process, values, or power distribution. Of these, it is contended, TQM adequately addresses only process change, with incidences of failure closely correlated to the application of process-based TQM techniques in change contexts characterised by structure, values or power. This study suggests that, for TQM to be applied successfully, either an approach is required which adequately addresses all types of change context (a so-called systemic approach), or its application needs to be restricted to those contexts where process dominates.

Present findings from a study that investigated the propagation of quality management practices among Indian manufacturing companies over a period of 16 years from 1980 to 1996, reports the findings of a mail questionnaire survey conducted on 500 selected companies from 14 manufacturing sectors. The extent
to which quality management practices have been implemented is reported and
the obstacles to adoption are identified. The spread of quality initiatives in
various functional areas is analysed and discussed. The paper will be of particular
interest to practicing managers as it identifies a number of policies that
governments may use to stimulate the adoption of quality management concepts
in developing countries.

Valid acts of whistleblowing – employees informing on dubious practices in
the workplace – is increasingly being viewed in a favourable light, with statutory
protection following. Examples of whistleblowing are presented, including
education and disaster situations which, being life-threatening, have immediate
perceived value. Provides criteria for valid forms of whistleblowing, the
formulation of codes of ethics for whistleblowers, and suggests the way forward
for the quality profession, who may be assisted through whistleblowing.

Quality Management Approach in China

In order to provide readers with a better understanding of China’s
approach to quality management, this paper presents China’s quality
management history, the main quality management efforts adopted by the Chinese government, the product quality situation, and the reasons for product quality problems. Finally, it has been concluded that governments can only play a role in shaping the context and institutional structure surrounding companies, while governments cannot create competitive industries; only companies can do that. If the quality of people, especially governmental officials, top management, and employees do not improve, it is very difficult for the country to improve product quality.

Quality Management Initiatives in Hong Kong’s Banking Industry: A Logitudinal Study

As an international financial centre, the banking industry in Hong Kong (HK) plays a significant role. Because of increasingly competitive pressure from domestic and overseas banks, HK banks must tightly control cost and improve quality and efficiency of operations in order to maintain profitability. For this purpose, quality management has emerged as an active tool in recent years. In fact, it has been regarded as a vital strategic element for meeting the challenge of the new and intensified competition in the financial services industry. This paper reports the result of a survey on quality management initiatives in HK’s banking industry between 1997 and 2000. The trend of changes in these years is analysed
and the results from HK are compared with those from British financial institutions reported by Wilkinson et al. The results show that HK banks have gradually adopted quality initiatives and gained significant success in quality management over the past 3 years. They focused more on meeting service standard and providing prompt services while banking institutions in the UK focused more on understanding and meeting customers’ needs.

CHAPTER IV
CUSTOMERS PERCEPTION OF SERVICE QUALITY IN SELECT PRIVATE SECTOR BANKS

4.1 INTRODUCTION

In this chapter, an attempt has been made to do a comparative study of the service quality perceptions of the customers of selected private sector banks namely ICICI, HDFC, TMB, KVB. For the purpose of analysis, service quality in