Human Factors of Service Quality: Study of Retail Banking in Sri Lanka.

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Abstract

Banking sector in Sri Lanka is characterized by increased competition and this intensified rivalry among banks has led them to think seriously about how to compete effectively. Service quality is pivotal in this situation in securing, and acquiring customers to strengthen their core competitive edge. The contribution of human resource is critical in disposing superior quality service to the customers due to the inherent nature of services. This study aims to ascertain the human factors of service quality from the perspective of banking customers in Sri Lanka. Based on the BANKSERV model, a qualitative analysis was done with the support of focus group interviews. The findings characterized four main factors as care, commitment, courtesy and competence that lead to service quality through customer satisfaction.

Keywords: service quality, human factors, care, commitment, courtesy, competence

1. Introduction

Banking sector in Sri Lanka is characterized by increased competition due to the emerging and growing popularity of various banking products. It raises competition among commercial banks that bring about numerous challenges in the recent age. Intensified rivalry among each other has led them to think seriously about how to compete effectively. With the presence of this highly competitive environment, offering a quality oriented service according to the customers' expectations is pivotal. Further financial liberalization and deregulation, improved technology including ICT and enriched customer knowledge have resulted to increase the competition among banks to attract potential customers. Every banker tries to provide superior services to keep their customers satisfied. With this introduction of the trade liberalization and economic reformations, more significant changes have taken place in the banking and financial sector in Sri Lanka. Many foreign banks also have setup branches; new specialized financial institutions have commenced their operations; new developments have been taken place in the money and capital markets. The expanded network of all banks concerned suggests that they operate in a highly competitive environment. They represent most important financial sector of the country. On the other hand a banker, being a service provider has to undergo a unique complexity in processing service products while maintaining a standard quality at all the time. Mostly, competition imitate one bank's product and it becomes a common product soon. Therefore, today customer service functions are highly competitive in this industry. Hence, in the last two decades there had been mounting pressures for applying superior customer services in the field of banking in Sri Lanka.

There is growing evidence that the perceived customer satisfaction plays a vital role in positioning service quality. This study proposed that it is vital to identify the elements of service quality in order to gain customer satisfaction as a competitive edge. The motivation for this study is twofold. First, since service quality is been a concept in marketing literature that has aroused considerable interest and debate in researching and adding new dimensions to the existing body of knowledge, the present study attempts to further illuminate the service quality concept particularly in relation to banking industry in Sri Lanka. Second and the most prominently, with the assumption that amongst the most of the service quality dimensions human factors are more influential than any others for delivering quality service to the customers, the study intended to explore distinctive service quality dimensions associated with people/human factors, to transform the service quality philosophy towards another direction.

Nowadays, with increased competition, service quality has become a popular area of academic investigation and has been recognized as a key factor in keeping the competitive advantage and sustaining satisfying relationships with customers (Zeithmal, 2000).This key element needs further rejuvenation since it is the most conspicuous factor in present Sri Lankan banking industry.

2. Customer Satisfaction and Service Quality

In the past, banks largely pursued undifferentiated marketing that was aimed at a broad spectrum of customers rather than particular segments of customers. But at present, in meeting customer expectations, they should be treated individually in a customized view due to the diversity of customer needs. Customers are becoming more sophisticated in their requirements and are increasingly demanding higher standards of services. Again, in the context of increasing accessibility to information and ability to switch among different banks, the customers are demanding better service quality. Technology enables them to make quick and accurate comparisons. To them, high quality customer service means customer satisfaction and customer delight.

Customer satisfaction is a set of feelings or outcome attached with customer's experience towards any product/service. Customer satisfaction with the service experience will lead to higher level of customer loyalty. Horstmann (1998), states that there is a strong and positive relationship between customer satisfaction and loyalty. A satisfied customer is six times more likely to repurchase a product and share his experience with five or six other people (Grönroos, 1990; Zairi, 2000); further unsatisfied customer can banish more business from the organization than ten highly satisfied customers do (Mohsan, 2011). With higher customer satisfaction the level of loyalty increases. Thus in the competitive world, meeting customer satisfaction through service quality is a key factor. Customer satisfaction is one of fundamental principles of quality management. Loyal and satisfied customers bring about stable income to the organization. Therefore organizations pay special attention to factors such as customer knowledge, customer relationships, and determination of methods for meeting customer satisfaction and providing suitable goods and services to meet customer needs because customer is the most important asset of the organization.

Parasuraman et al. (1988) define service quality as a difference between customer expectation of service and customers' perceptions of the actual service. Kasper et al. (2006) defines service quality as the degree to which the service offered can satisfy the expectations of the user. According to these definitions, customers are the sole judgers of service quality. If they perceive it to be good service, then it is. They assess the quality of service by comparing their expectation with perception. Service quality can be defined as the difference between customer's expectations of service performance prior to the service encounter and their perceptions of the service received(Asubonteng et al., 1996). Quality service has a positive effect on the bottom-line performance of a firm and thereby on competitive advantages that could be gained from an improvement in the quality of the service offered, so that the perceived service exceeds the service level desired by customers. Caruana, (2002) and Chumpitaz et al, (2004) defined service quality as the subjective comparison that customers make between the quality of the service that they want to receive and what they actually get.

3. The Role of HR in Delivering Service Quality.

According to Philip Worsfold (1999), number of studies show that there is a positive relationship between HR factors and service quality and it is assumed that competitive advantages can be achieved through superior service quality. In delivering quality service, human factors are crucial since the uniqueness of services than the products. The literature suggests that competing on service quality through human resources is particularly important for interactive service activities, defined as those that are produced through the interaction of employees and customers (Leidner, 1993). The argument builds on the idea that services differ from goods due to this fundamental difference of instructiveness. The service management literature draws out the specific ways that HR systems are likely to affect performance in-services than products due to four core differences: intangibility, heterogeneity (or variability) due to customers as co-producers, perishability of output (no inventory), and simultaneity of production and consumption (Lovelock, 2005). The intangibility of service activities suggests that the process of delivery is important, or more important than any other. Customers consume a process rather than the output (Gronroos, 1990). While the degree of intangibility varies across tasks and industries, the customers' experience of the process of delivery is central to their perception of quality. Accordingly, human factors play a major role in delivering superior quality service to the customers.

4. Effects of Service Quality

Banks that excel in quality service can have a distinct marketing edge, since improved level of service quality is related to higher revenues, increased cross-sales ratios, higher customer retention (Bennett and Higgins 1988), and expanded market share (Bowen and Hedges 1993). Likewise, provision of high quality services enhances customer retention rates, helps in attracting new customers through word of mouth advertising, increases productivity, leads to higher market shares, lowers staff turnover and operating costs, and improves employee morale, financial performance and profitability (Julian and Ramaseshan, 1994; Lewis, 1989; 1993). Therefore, delivering quality service to customers is a must for success and survival in today's competitive banking environment (Samli and Frohlich, 1992). In addition to the above, service quality will sustain the customers' confidence in service delivery, attract more new customers, increase business with existing clients, reduce dissatisfied customers with fewer mistakes, maximize company's profits and increase customer satisfaction (Berry et al., 1994).

Given these significant findings in the services industry, it is important to understand specifically, how service quality is perceived by the customer, and what are the elements considered to be important to different customers. The concept of service quality and customer satisfaction is interrelated with each other. More over satisfaction of customers depends upon service quality and service quality is increasingly offered as a strategy to position them effectively in the market place. Service Quality is a multi-dimensional concept; it means different things to different people. So service quality is increasingly becoming a major strategic variable and this construct has received increased scrutiny during the last few decades. However, quality costs are expensive, usually about 30–50 per cent of sales revenues (Newman & Cowling, 1996), and it is time consuming to realize the benefits. Whoever implements them, first will gain advantages before others. Hence, service quality will be an important strategic business catalyst driving the retail banking business successes and ultimately will reflect in excellent corporate performance. Therefore, service quality has received much attention because of its obvious relationship with costs, financial performance, customer satisfaction, and customer retention. With this, service quality has become pivotal concern among the present bankers in Sri Lanka. Behind all this, customer-focused philosophy is aimed at delivering high quality services that customers seek and retaining and extending the market share which leads the overall success of the bank.

5. Service Quality Dimensions

Extensive work have been done on service quality in banking sector and most of these research found that customer-employee relationship is most significant in delivering high quality service so as to satisfy customers and delight customers. When analyzing dimensions of bank service quality, Lévesque and McDougall (1996) identified the relational dimension representing better relationship with customer and the employee delivers as a quality service. The study of consumers of commercial banks in United Arab Emirates (Jabnoun and Al-Tamimi, 2002) revealed three dimensions of service quality such as human skills, tangibles and empathy. Avkiran (1994) developed an instrument called BANKSERV to measure customer service quality in banking sector and obtained four dimensions of service quality: staff conduct, credibility, communication, and access to teller services. He also studied the effect of three of these dimensions and discovered that staff conduct is the key dimension (Avkiran, 1999).

Walker (1990) suggested that the key determinants are product reliability, a quality environment and delivery systems that work together with good personal service by staff attitude, knowledge and skills. Grönroos (1990) postulated six criteria of perceived good service quality: professionalism and skills; attitudes and behavior; accessibility and flexibility; reliability and trustworthiness; recovery; reputation and credibility. Albrecht and Zemke(1985) suggested care and concern, spontaneity, problem solving and recovery. Armistead (1990) split the dimensions into "firm" and "soft". The *firm* dimensions are time (including availability, waiting time and responsiveness), fault freeness (including physical items, information and advice) and flexibility (ability to recover from mistakes, to customize the service or add additional services). The *soft* dimensions are style (attitude of staff, accessibility of staff and ambience), steering (the degree to which customers feel in control of their own destiny) and safety (trust, security and confidentiality). These studies showed that service quality dimensions are different and varied across context. Therefore the need for further inquiry is significant in this context.

6. Methodology

The study followed qualitative approach and applied focus group interviews in ascertaining the genuine experience the customers receive in performing banking activities. The BANKSERV model was used as the measurement tool. The BANKSERV model was developed in Australia by Avkiran to measure service quality in retail banking as perceived by customers in 1994. BANKSERV adopts a 'perception-expectation' approach to the measurement of service quality and the instrument's reliability, dimensionality and validity were all empirically tested and the results were "encouraging both in their own right and when compared with other studies" (Avkiran, 1994).Further the items were slightly moderated so as to fit with the Sri Lankan cultural context. The study based on the Sri Lankan banking industry especially retail banking, since it is justified that the economic development of a country is heavily depends upon financial sector and banks are the major player in this context. The sustainability of the industry is determined by the competitiveness and customer satisfaction and service quality. Further retail banking involves end customers and this segment of customers base is higher in Sri Lankan banking industry.

7. Analysis and Findings

This study indicates staff customer relationship as the primary service quality dimension. It further explicates that if the staff has better relationship in delivering the service, they are delighted, happy and treat the service as a quality service. Though the instrument had four dimensions termed as staff conduct, credibility, communication and access to teller service, study uncovered comparable but marginally different factors. Therefore the study concluded with care, commitment, courtesy, and competence as factors for service quality in the Sri Lankan banking industry. During the interviews with the customers, they were with the view that accessibility to the tellers were not material, since they are ready to stay for a while, if the staff kindly care them. When highlighting the better relationship with the customer, four main factors are significant. They are care, commitment, courtesy, and competence of the bank staff. So it is supposed reasonably that, these factors can be labeled as human factors of service quality since it is a matter of human relations.

Care is the concern, consideration, sympathy and patience shown to the customer. Customers expect the due care in the service personnel though they are not served by the bank. This includes the extent to which the customer is put at ease by the service and made to feel emotionally (rather than physically) comfortable.

Commitment is staff's apparent commitment to their work, including the pride and satisfaction they apparently take in their job, their diligence and thoroughness. Customers anticipate a quick and full service which meets their all requirements.

Courtesy is 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. Politeness in welcome, salutation and delivery. The staff should be able to treat the customers equally but uniquely/personally.

Competence is described as the skill, expertise and professionalism with which the service is executed. This includes the carrying out of correct procedures, correct execution of customer instructions, and 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. These human related service quality factors are basically competitive in delivering superior quality service to the customers. Therefore in driving towards excellence quality, these factors should be the focal concerns.

8. Conclusion

To gain and sustain competitive advantages in the fast changing banking industry in Sri Lanka, it is crucial for bankers to understand in-depth, what customers perceive to be the key dimensions of service quality. The service quality variables of care, commitment, courtesy, and competence of the bank staff, play important role in providing high quality service and make the customers satisfied and delighted. Since these factors are human related, this study shows new dimension to the bankers in keeping the service quality. It proposed that service quality is not only the matter of marketing but HRM also.

Hence, these factors should be the central concern for retail bank managers in the light of improving superior quality service. Bank managers are suggested to focus on these specific dominant variables to improve customer perception of service quality among retail banking customers. For the future studies it is suggested to see the variability of these constructs and more precisely comparative analysis across different segments are also possible.

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