Challenges facing a financial institution to improve service quality and customer retention

By

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DECLARATION

"I, Izak Theunis Meyer, hereby declare that:

* This work has not been previously accepted in substance for any degree and is not being currently submitted in candidature for any degree.

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EXECUTIVE SUMMARY

The financial industry and more specifically Retail banking is a very competitive industry. The profit margins are shrinking with the entrance of new competitors into the market place. During the last two to three years various foreign banks have opened offices in South Africa, cherry picking the high net worth customers from the traditional high street banks.

The product range between these banks is the same, maybe at times presented in a different wrapping. The one differential factor between the various banks is service and the quality thereof.

The researcher, being a banker, decided to investigate how to improve the quality of service which is the main problem of this study. The secondary problems or sub-problems are:

* How to solve service breakdown?
* How to retain customers after a service breakdown?

The researcher first did a literature survey focusing on the key drives of this research namely:

* Improving quality service.
* Problem resolution.

* Customer retention.

An empirical investigation was also undertaken focusing on the personal market segment and the high net worth individuals. The demarcation of the survey was restricted to a specific area on the South Coast of KwaZulu Natal, and in particular the retail market and three specific branches on the South Coast, namely:

* Scottburgh;
* Margate, and
* Port Shepstone.

The main finding of the empirical survey indicates an average service rating of 8.38, which is in excess of the financial institution's national service objective of 8.22 for 2001. This indicates that in most areas the service quality of this financial institution is good.

The results from the literature survey as well as the empirical investigation indicated that service quality can only be achieved through a collective effort from all role players within the bank. The resolution of service breakdown needs to be controlled and managed to rectify breakdowns effectively within specific time limits that are acceptable to the individual customer. The barriers to retain customers will become less effective should the financial institution not be able to restore or improve service quality for their customers.

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INTRODUCTION AND PLANNING OF THE STUDY

1.1 INTRODUCTION

Berry (1983:25) has argued that customer service is a key ingredient in customer retention. Payne (1995:93) has indicated that service firms devote most of their resources to attracting new customers but few take equal trouble to retain existing customers. The effect of longevity and profiles can be explained by several factors:

- Acquiring new customers costs more than retaining an existing one. The cost of acquiring a new customer is incurred only at the beginning of the relationship, thus the longer the relationship the lower the amortized cost of acquisition. A long-term customer tends to be fewer prices sensitive, permitting higher prices to be charged.
- Long-term, satisfied customers are likely to provide free, word-of-mouth advertising and referrals.
- Improved customer retention can also lead to an increased employee retention, which feeds, back into even greater customer longevity.

From the above one can conclude that it is more economical and beneficial for a service firm to retain customers. With the above conclusion in mind this chapter will briefly discuss the background to the research problem, indicate the main problem and sub-problems, and the importance of the study, followed by the demarcation of the research and an overview of existing literature. The research

design and chapter division will also be outlined.

1.2 BACKGROUND TO THE STUDY

Focus groups unambiguously have supported the notion that the key to ensuring good service quality is meeting or exceeding what customers expect from the service. One female participant described a situation in which a repairman not only fixed her broken appliance but also explained what had gone wrong and how she could fix it herself should the same problem occur in the future. She rated the quality of this service excellent because it exceeded her expectations. (Zeithaml, Parasuraman and Berry, 1990:18).

A male respondent in a banking services focus group described the frustration he felt when his bank would not cash his payroll cheque from a nationally known employer because it was post dated by one day. When someone else in the group pointed out legal constraints preventing the bank from cashing his cheque he responded, “Well, nobody in the bank explained that to me!” Not receiving an explanation in the bank, this respondent perceived that the bank was unwilling, rather than unable, to cash the cheque. This in turn resulted in a perception of poor service quality. (Zeithaml et al., 1990:18).

According to Seaman (1998:3) customers who continue doing business with a company because of the service they receive will also spend money on other products and services within the same company. Payne (1995:45) argues that the prevailing idea behind retaining customers has been maintaining quality.

Research undertaken in the financial services sector, indicates that quality programs no longer have the power to keep customers satisfied. This research suggests that quality is not always the major determinant of customer turnover. Payne (1995:45) identifies the following four primary causes:

- rate increases;
- competitive solicitation;
- service deficiency, and
- poor reputation.

From the research conducted by Payne (1995:45) the researcher concludes that though service quality is important for customer retention, other factors can also influence it. Financial institutions must therefore take cognizance of the causes leading to customer turnover.

Seaman (1998:290) has done an empirical investigation on the factors that influence the loyalty of customers, and customer- and employee turnover and has found the following eight main concerns relating to service factors for banks:

- **Price** - customers view service charges as excessive.
- **Inconvenience** - branches and automatic teller machines are not always conveniently located. Hours of business are not always convenient. Customers must wait for appointments and for service, while some counters remain unmanned.
- **Service failure** - constant mistakes on customer accounts and system failure annoy customers.

- **Service delivery** - staff have a reluctant attitude to customer care and are unfriendly. They are unsympathetic and unprofessional and appear unqualified, as they do not know what products the bank offers.
- **Reaction failure** - staff react negatively when service fails, or do not react at all, or are unwilling to assist.
- **Competitors** - customers feel that other banks' service is better.
- **Ethical concerns** - security is lacking at ATMs (Automatic Teller Machines) and in banking halls, which are found to be overcrowded. Customers' accounts are moved to other branches without their permission.

Payne (1995:194) then gives the following advice on practical approaches for monitoring service quality:

- **Customer service quality "benchmark"**

  Qualitative customer service research provides managers with information on the service quality issues that require attention. Quantitative research gives managers the customer priority order for action.
- **Staff climate monitor**

  This survey is an empirical measure of branch/district/head office staff opinion about the quality of customer service and also the quality of work life. These two elements impact on the quality of service experienced by the customer.
- **Silent shopper**

  The "silent shopper" is a survey measurement system based on the real shopping experience of customers. This ensures that the shopping

experience is as genuine as possible.

Grönroos (1993) has indicated that for academic researchers research on service quality is entering its third phase and a more dynamic model is needed of how the quality of service is perceived by customers (Payne, 1995:200). The first phase has been concerned with understanding what service quality is and the context in which quality perceptions are determined through what has been termed the "confirmation/disconfirmation" concept of perceived quality.

According to Payne (1995:199) for managers in service organizations, the emergence of service quality as a key issue in their business is a vital concern. In particular, they are confronted with how to translate service quality into a tool for improved marketing results, increased customer retention and long-term profitability.

1.3 PROBLEM STATEMENTS

With the above background in mind, the main problem for this study was identified.

MAIN PROBLEM: ***How can a selected financial institution improve service quality?***

In order to develop a research strategy to deal with and solve the main problem, the following related sub-problems have been identified.

SUB PROBLEMS:

- ***How to solve service breakdowns by the selected financial institution?***
- ***How to retain customers after a service breakdown has occurred?***
- ***What is service quality and how to apply it to obtain service excellence?***

1.4 SIGNIFICANCE OF THE RESEARCH

Customer service is often the only contact the public has with a company. Quality or its lack can be a serious factor in the reputation and success of an organization. The area that offers the most opportunity for developing a real competitive advantage, and at the same time offers the most challenges, will undoubtedly be that of customer service. (Martin, 1993:9). Few people claim or attribute much demonstrable success in this area to date.

In many ways, much of the focus on costs, rationalization of the branch based delivery systems and margin enhancement through increased charges and fees has had a negative impact on customer service and satisfaction. However, the solution does appear to be in simplifying the relationship with the customer and delivering a simple but highly appropriate level of service. (McGoldrik and Greenland, 1994:120).

McGoldrik and Greenland (1994:120) further sum up the problem and the opportunity for the banks and other financial institutions in the years ahead, in a

statement by banking ombudsman Lourence Shorman as follows. “Customers do not use banks because they want to, but because they are a necessary evil. The customer, who savours a good wine, derives no pleasure from the plastic card used to buy it. His pride in his home will not extend to the mortgage with which it is acquired, let alone the bank, which made the advantage. Primarily what a bank has to offer is a service, and it is a service and not a product that the emphasis should be on”.

The researcher is an employee at a financial institution. This financial institution evaluates customer service on a monthly basis through an independent company. The results are analyzed and feedback is given to the branches for implementation of tactics to enhance service quality. Specific issues are addressed to eliminate gaps and to meet customer expectations. The results from the general feedback from existing customers on the quality of service indicate the need for further research, as the perception in the market is that service from banks is not good.

The need for further research is underlined by the appalling state of customer relations in the British retail banking industry, where standardization and improved efficiency have been pursued at the expense of customer relations. Successive Customer care initiatives have failed to bridge the widening chasm between the banks and their increasingly alienated customer bases. (Payne, 1995:105).

1.5 DEMARCATION OF THE RESEARCH

Demarcating the research serves the purpose of making the research topic manageable from a research point of view. The research is limited to a selected financial institution.

1.5.1 Geographical demarcation

The financial institution in question is a national company. However this study will be limited to the branches situated on the South Coast of KwaZulu Natal.

The branches selected are:

- Margate;
- Scottburgh, and
- Port Shepstone.

1.5.2 Focus of the empirical research

This research will be limited to investigating the relationship between service quality and customer retention as perceived from a customer viewpoint. This study will exclude service quality and customer retention as perceived by staff.

1.5.3 Type of industry

The research will be limited to the retail banking branch network of a selected financial institution and the customer base that utilizes this network.

1.6 DEFINITION OF CONCEPTS

In the context of this study, the following meanings will be ascribed to the concepts.

1.6.1 Service

Service is defined by various authors as follows:

- Services are intangible when compared to physical goods (Levitt, 1981:94).
- Syke (1982:34) defines service as the activity of working for other people or for an organization.

For the purpose of this research, service will be defined as the interaction between the financial institution and the customer.

1.6.2 Service quality

Different authors have viewed service quality as follows:

- The distinct formula, approach, or principle for delivery of service quality, which is both important to the customer and deliverable (Albracht, 1994:33).
- A powerful, yet simple method of process improvement to achieve customer satisfaction. Total quality service anticipates customer needs and encourages employee participation and ownership of work processes (Milakovich, 1995:9).

Judgements of high and low service quality depend on how the customer perceives the actual service performance in the context of what's expected. Therefore service quality, as perceived by customers, can be defined as the extent of discrepancy between customers' expectations or desires and their perceptions. (Zeithaml et al., 1990:18).

For the purpose of this research, service quality or quality service will be defined as the activity of providing a high standard of service to meet or exceed the customer's needs and expectations.

1.6.3 Customer retention

Hall (1997:100) defines customer retention as keeping customers for life. The lifetime value of a customer to any industry can be valued in monetary terms.

For the purpose of this research, customer retention will be defined as the ability to retain one's existing customer base.

1.6.4 Service breakdown/failure

According to Slack, Chambers, Harland, Harrison and Johnston (1998:719) there is always a chance that in making a product or providing a service, things might go wrong. When these things go wrong, it is defined as a service breakdown or failure.

For the purpose of this research, service breakdown or failure will be defined as delivering service below a required standard.

1.6.5 Service recovery

Service recovery is to inform of, ascertain and follow up the consequences of

failure, so as to find the root cause of the failure and prevent it from taking place again, and planning to avoid the failure occurring in the future (Slack et al., 1988:753).

Armistead, Clarke and Stanley (1995:5) define service recovery, as the specific actions taken to ensure that the customer receives a reasonable level of service after problems have occurred to disrupt normal service.

For the purpose of this research, service recovery will be defined as the setting right or rectification of a service breakdown or failure.

1.6.6 Customer satisfaction

Murphy (2000:27) has argued that it is the minimum acceptable levels of service that provide customer satisfaction in the key areas that are critical and where service quality thresholds need to be set. To fall below the minimum threshold in any key area puts one into the danger zone and one's customer will not be satisfied.

For the purpose of this research, customer satisfaction will be defined as the minimum requirement to meet customer service needs.

1.6.7 Financial institution/Bank

Syke (1982:12) defines the financial institution / banks as an establishment for custody of money, which it pays out on a customer's order.

For the purpose of this study the researcher defines a financial institution/bank as an establishment or organization that provides financial services to retail customers.

1.7 OBJECTIVES OF THE STUDY

The objectives of this study are firstly to identify the characteristics and requirements to improve service quality, secondly to identify how to control service breakdowns, either to prevent them from occurring or to solve them in an amicable manner and thirdly to retain a customer after a service breakdown has taken place.

The researcher takes the following assumptions for granted while conducting this study:

- The service levels in this financial institution will remain the same for the duration of the research, which will be twelve months.
- The financial institution will be able to apply the research results in the workplace to enhance quality service for customer retention.

1.8 RESEARCH METHODOLOGY

The following procedure was followed to solve the main problem and sub-problems.

1.8.1 Literature study

The following secondary sources were consulted for the literature study:

- The Internet was used to search for relevant information.
- Related research already undertaken in this field from journals and unpublished sources such as theses was studied.

The literature study was conducted to identify the key elements of service quality and how to improve service, before and after a service breakdown has taken place.

1.8.2 Empirical study

The following procedure was followed for the empirical study. The research population comprised high value customers in the personal market segment at three selected branches of the financial institution. The rationale of selecting the specific sub-segment in the personal market is that a financial institution cannot afford to lose these customers, as their accounts contribute to a relatively large percentage of the total turnover of the financial institution.

The sample consisted of twenty medical doctors and thirty other high net worth customers. Therefore the total sample amounts to fifty. This sample was interviewed telephonically during October 2001. Only one interview took place for each respondent, as this is a cross-sectional study.

A structured questionnaire was developed by the researcher based on information gained from the literature study and experience gained in the financial industry. The content of the questionnaire will focus on service quality and customer

retention.

Once the data was collected, it was processed, analyzed, presented and interpreted in order to test the relevance of existing literature.

1.9 OUTLINE OF THE STUDY

This study consists of the following five chapters:

Chapter 1: Introduction and planning of the study.

Chapter 2: Service quality and customers retention.

Chapter 3: Methodology of the study.

Chapter 4: Summary and interpretation of the empirical data.

Chapter 5: Conclusion and recommendations.

1.10 SUMMARY

This chapter has served as an introduction to the study by discussing the background to the problem, how the problem and sub-problems were formulated and the importance and objectives. The research methodology was briefly explained and a summary of the structure of the study followed. In chapter two service quality and customer retention will be discussed.

CHAPTER 2

SERVICE QUALITY AND CUSTOMER RETENTION

2.1 INTRODUCTION

In the previous chapter the layout of the research was discussed. Service quality will be investigated in this chapter by means of a literature survey. As mentioned in chapter one, the focus will be on financial institutions mainly and on the services they provide. The importance and benefits of providing service quality are well documented in the academic literature and business practitioners strive to design and implement programs to ensure that the customer is satisfied with his/her encounters with a service firm and in turn with the various dimensions of service quality. However quality discrepancies and shortfalls are likely to occur, especially when human input is largely responsible for the “production” and delivering of the offering. The problem that arises for organizations is what happens when a service shortfall occurs, and how they can recover from service failures.

2.2 SERVICE QUALITY

Today, bankers are realizing the importance of service quality in keeping existing customers and acquiring new ones. One of the ways in which banks are making concerted efforts to improve quality in servicing customers is to find out what they really want. The customer's perception of quality service may be quite different from the banker's definition. Thus, the way to ensure that the bank is providing the services customers want is by asking them. Banks are assessing customer's opinions and preferences not only by putting comment cards in their branches, but also by setting up customer focus groups as well as telephone and in-person surveys. (Mahoney,1994:66).

Banks need to practice service excellence in addition to service quality. Service excellence delights the customer. Examples include letting the customer choose his own PIN, improving the readability of account statements, and giving branch managers flexibility on consumer loan rates. Employees should be empowered to do what it takes, within reason, to satisfy the customer. (Madsen, 1993:2).

The information gathered from their customers combined with the knowledge of their business objectives and institutions' capabilities, will give bankers a starting point in developing effective service quality programs. The following are just a few examples of bank service quality programs:

- West One conducted a study that identified areas within the bank which needed improvement. The bank will focus on attracting the best employees, customer satisfaction, and recognition of employee performance and

employee education and training.

- Hagerstown Trust Co., although still the leading bank in its market, had declining market share. It plans to become more customers driven and incorporate a consultation-selling attitude.
- North Bank, Anchorage, Alaska, has instilled quality service into all of its banking services and products. Its customer first service program synthesizes employee issues with a customer communication program. Its service guarantee campaign resulted in “commitment to service” chosen as the number one reason for opening a new account at North Bank. (Mahoney, 1994:66).

However, striving for improved service is only one facet of the total picture. In the ever-consolidating banking world and with increased non-bank competition, banks must differentiate themselves. They need to find ways to become more valuable to their customers and actually exceed expectations.

2.2.1 Quality creates true customers

According to Mahoney (1994:66) in the January 1994 issue of Marketing Update, Paul Diesel discerned that even good service quality could only make banking a “neutral experience”. In order to keep “fervently loyal” customers, banks must offer products that provide added value. For example, Diesel’s bank calls him when new services are introduced and explains them in the context of his whole banking relationship.

Excellent service pays off because it creates true customers - customers who are glad they selected a firm after the service experience, customers who will use the firm again and sing the firm's praises to others. True customers are like annuities - they keep pumping revenue into the firm's coffers. (Zeithaml et al., 1990:10).

The essence of service marketing is service. Most literature sources on marketing stress the four "P's" of marketing as product, place, promotion and price, but Zeithaml et al. (1990:10) state that in a service business, the most important competitive weapon is the fifth "P" being that of performance.

According to Zeithaml et al. (1990:21) through focus-group interviews, one can learn a great deal about how customers view service quality. The most revealing and unique insights emerging from the focus groups concerned do customers in judging service quality use the criteria. From this exploratory study they were able to:

- define serious quality as the discrepancy between customers' expectations and perceptions;
- suggest key factors :
    - Word-of-mouth communications
    - Personal needs
    - Past experience
    - External communications that influence customers expectations, and
- Identify ten general dimensions to assess service quality.

The researcher regards these dimensions of service quality as very important as they represent the evaluation criteria customers use to assess service quality in a financial institution. These ten dimensions are summarized in table 2.1 below.

TABLE 2.1: TEN DIMENSIONS OF SERVICE QUALITY

Dimensions and Definition	Examples of Specific Questions Raised by Customers
Tangibles: Appearance of physical facilities, equipment, personnel and communication materials.	• Are the bank's facilities attractive? • Is my stockbroker dressed appropriately? • Is my credit card statement easy to understand? • Do the tools used by the repair person look modern?
Reliability: Ability to perform the promised service dependably and accurately.	• When a loan officer says she will call me back in 15 minutes, does she do so? • Does the stockbroker follow my exact instructions to buy and sell? • Is my credit card statement free of errors? • Is my washing machine repaired right the first time?
Responsiveness: Willingness to help customers and provide prompt service.	• When there is a problem with my bank statement, does the bank resolve the problem quickly? • Is my stockbroker willing to answer my questions? • Are charges for returned merchandise credited to my account promptly? • Is the repair firm willing to give me a specific time when the repair person will show up?
Competence: Possession of the required skills and knowledge to perform the service.	• Is the bank teller able to process my transactions without fumbling around? • Does my brokerage firm have the research capabilities to track market developments accurately? • Does the repair person appear to know what he is doing?
Courtesy: Politeness, respect, consideration and friendliness of contact personnel.	• Does the bank teller have a pleasant demeanor? • Does my broker refrain from acting busy or being rude when I ask questions? • Are the telephone operators in the credit card company consistently polite when answering my calls? • Does the repair person take off his muddy shoes before stepping on my carpet?
Credibility: Trustworthiness, believability,	• Does the bank have a good reputation? • Does my broker refrain from pressuring me to buy?

honesty of the service provider.	• Does my credit card company consistent with the services provided charge the interest rates/fees? • Does the repair firm guarantee its services?
Security: Freedom from danger risks or doubt.	• Is it safe for me to use the bank automatic teller machines? • Does my brokerage firm know where my stock certificate is? • Is my credit card safe from unauthorized use? • Can I be confident that the repair job was done properly?
Access: Approachability and ease of contact.	• How easy is it for me to talk to senior bank officials when I have a problem? • Is it easy to get through to my broker over the telephone? • Does the credit card company have a 24 - hour, toll-free telephone number? • Is the repair service facility conveniently located?
Communication: Keeping customers informed in language they can understand and listening to them.	• Can the loan officer explain clearly the various charges related to the mortgage loan? • Does my broker avoid using technical jargon? • When I call my credit card company, are they willing to listen to me? • Does the repair firm call when they are unable to keep a scheduled repair appointment?
Understanding the Customer: Making the effort to know customers and their needs.	• Does someone in my bank recognize me as a regular customer? • Does my broker try to determine what my specific financial objectives are? • Is the credit limit set by my credit card company consistent with what I can afford (i.e. neither too high not too low)? • Is the repair firm willing to be flexible enough to accommodate my schedule?

SOURCE: Adapted from Zeithaml et al. (1990:21)

Although financial institutions are aware of the above dimensions of service quality as outlined in table 2.1, they have to know what financial services customers expect from them.

2.3 WHAT FINANCIAL SERVICES CUSTOMERS REALLY WANT

According to a survey done by Deloitte and Touche (2000:3) the following principal findings came forth.

- **Customer service drives satisfaction**

  Responsive service and being treated as a valued customer were the most important factors driving customer satisfaction with financial service providers around the world. To be successful, financial institutions will need to improve service, even as they move to contain costs.

- **Customers remain to be convinced about the value of online services**

Most consumers reported that they do not use online financial services or expect to use them in the future. Financial institutions face a challenge in demonstrating to consumers that online delivery will improve service.

- **Good prospects for cross-selling**

  Roughly one-half of consumers in each country said that they would be likely to look first to their existing providers if they needed a new financial product. Financial services institutions have a golden opportunity to cross-sell additional products to these customers. Meanwhile, they face a substantially greater challenge in cross selling to the remaining customers, who tend to shop around for new products.

- **Reluctance to use nontraditional providers**

  Most consumers were not interested in obtaining financial products from nontraditional providers, like retail and software firms. Traditional banks, insurance companies, and investment providers need to move quickly to improve service and increase customer loyalty before consumers become more accustomed to non- traditional providers.

- **Industry profiles**

  While customer service was an important driver of customer satisfaction for all types of providers, each financial services industry had a unique profile of customer requirements.

- **Banks - branches remain important**

  Although it did not differentiate competitors, consumers placed a high importance on having convenient branches in their banking relationships. Banks will need to move cautiously in reducing the size of branch networks if

they are to retain existing customers. They will also need to explore other low-cost ways of providing service, for example through post offices.

- **Insurance - consumers seek a strong reputation**

  In addition to service, the reputation of their insurance provider was a key factor driving customer satisfaction.

- **Investment providers - low fees and sound advice valued**

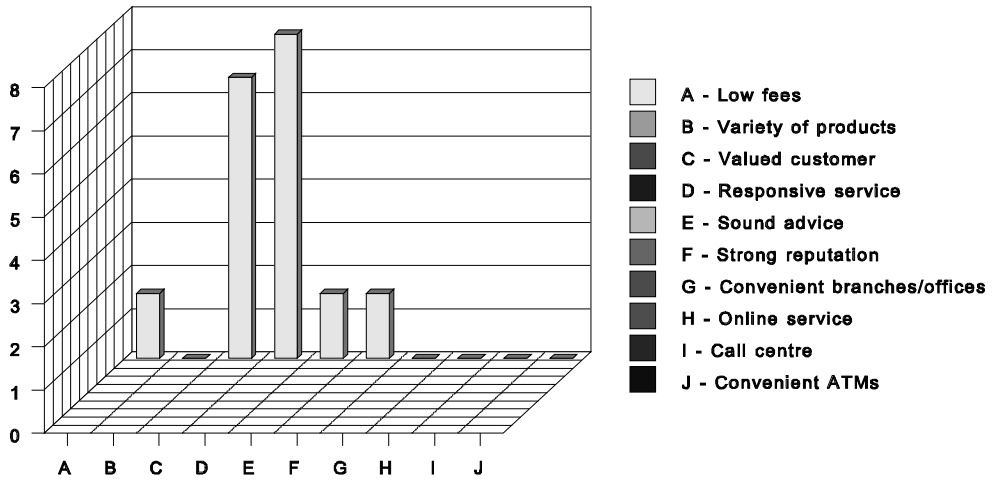
  The level of fees and the quality of financial advice were more important in driving customer satisfaction with investment providers than with banks or insurance companies.

Deloitte and Touche (2000:5) did another survey to distinguish what consumers or customers regard as important and what management regard as important. A summary of these results can be seen in table 2.2 below.

TABLE 2.2: DIFFERENCES IN WHAT CONSUMERS REGARD AS IMPORTANT AS COMPARED TO MANAGEMENT

Focus	Management	Consumers
Service	• 24 hour access and convenience key	• Responsive service and personal attention more important than convenience
Internet/online services	• Quickly becoming a basic requirement	• Not yet important to most consumers
Branches/Offices	• Declining in importance	• Remain highly important for banking customers
Nontraditional providers	• Greatest competitive threat	• Most consumers not yet interested

SOURCE: Adapted from Deloitte and Touche (2000:5)



As can be seen in table 2.2 customers and management have different expectations of what is important. Deloitte and Touche (2000:5) also did an international survey on service expectations. The results of this survey are illustrated in figure 2.1.

FIGURE 2.1: SERVICE EXPECTATIONS

SOURCE: Deloitte and Touche (2000:5)

The question now arises: which attributes drive overall satisfaction? Despite some variation across financial industries and countries there is consensus among

consumers around the world. The results of both table 2.2 and figure 2.1 can be summarized according to Deloite and Touche (2000:5) as follows. While customers rated many items as important to them, satisfaction with customer service was the most important factor that determined whether a consumer was satisfied overall with their banking, insurance or investment provider.

Consumers were asked about two specific aspects of customer service: being treated as a valued customer and responsive service. How well a financial services institution provided these two aspects of customer service was the

Most important factor that determined whether it had satisfied customers. Consumers around the world want their financial services providers to treat them as a valued customer by providing personal, caring service. In addition, they want their financial services providers to offer responsive service, quickly resolving problems and providing requested information. While other factors played a role in customer satisfaction in certain countries and industries, the foregoing attributes of customer service were almost always the important drivers of overall satisfaction.

Executives may have lost sight of the fundamental importance of customer service. Many other issues claim management attention such as the introduction of online services, building a strong brand, and increasing efficiency to become more price-competitive. However, these factors rarely drove overall customer satisfaction. Where these factors did play a role in determining customer satisfaction, they were

usually much less important than customer service. Although financial services executives agree on the critical importance of customer service, they often refer to issues such as 24-hour access, increased convenience, and one-stop shopping. (Deloitte and Touche, 2000:6).

Consumers, on the other hand, are more concerned with the quality of their interactions with their financial services providers, so-called “moments of truth”. Is needed information provided quickly? Is it easy to resolve problems? Are personnel friendly and eager to help? Am I recognized? Do they remember my last call? The critical role played by personal service was further confirmed by a

1999 survey of U.S. consumers commissioned by the American Bankers Association. The three banking experiences that were most closely correlated with overall satisfaction were all aspects of personal service: problems handled efficiently, staff listened to questions or concern and problem resolved by phone. (Deloitte and Touche, 2000:7).

How financial institutions handled customer problems is particularly critical. The study commissioned by the American Bankers Association found that roughly two-thirds of customers who complain to their bank are not completely satisfied with the response they receive. These customers are not only less likely to purchase additional products; they are also much more likely to tell others about their unhappy experience. Customers who are satisfied with how their financial provider

handles their problems become more loyal customers and active advocates for the institution. (Deloitte and Touche, 2000:7).

Financial services firms face a challenge in meeting these expectations for personal service while at the same time keeping costs under control. Firms have been encouraging customers to migrate to less costly channels such as call centers and the Internet, touting the increased convenience and 24-hour access they provide. However, many consumers see these distribution channels as lacking the personal touch that used to be provided by familiar personnel at the branch or sales office. If they are to keep their customers satisfied, financial firms will need to leverage the latest technology to provide more personal service. (Deloitte and Touche, 2000:8).

2.4 SERVICE EXCELLENCE

Banking has changed. An increasingly innovative and aggressive financial services environment together with deregulation has created more competition and a seemingly endless variety of products. These forces of change have led to banks moving toward customer-orientated strategies, so that it is the quality of service that becomes the ultimate factor which differentiates one organization from another, and indeed determines whether or not it will survive (Kleiner and Kim, 1996:26).

Management in each case has recognized the definite need to adapt itself to a changing environment and to provide employees with a vision of service quality;

these empowered employees share this vision and improve their knowledge for better customer service. Alongside this, applications of technology, such as automated teller machines (ATMs) networks and electronic data warehouse systems help the banks to improve the efficiency of their operating processes. This in turn provides the bank with more and better information on customers, increasing the opportunities for service quality. The effect of this service excellence is to make the banks more profitable. (Kleiner and Kim, 1996:26).

What do the banks actually do, to reinvent themselves to cope with these changes, and what lessons are transferable to other businesses and industry sectors?

Interesting results of detailed research done by Kleiner and Kim (1996:26) on Bank of America, Citi Bank and One Valley Bank in West Virginia are that these three high performing banks share common elements of service excellence such as:

- a clear banking culture provided by committed management;
- employment empowerment by enhancing knowledge and skills, and
- Improvement of operating processes with technological applications.

A discussion of the three common elements of service will follow.

2.4.1. Culture

Organizational culture is “the set of shared, taken-for-granted implicit assumptions that a group holds and that determines how it perceives, thinks about and reacts to its various environments”. This definition highlights two important characteristics of organizational culture. First organizational culture influences our behavior at work.

The second key characteristic of organizational culture is that it operates on two levels, which vary in terms of outward visibility and resistance to change. (Kreitner, Kinicki and Buelens, 1999:57).

The environment in the banking industry has gone through tremendous changes. Banks must meet such change by adapting and changing themselves. The traditional lure of promotion, as an incentive for motivation and commitment is no longer enough; it needs cultural changes to provide the alternative ways to create and sustain service excellence and a customer focus. Profit comes from the ability To create this culture, which requires strong commitment to change and involvement by the management.

To assess integral culture, One Valley Bank took an aggressive step, an employee-centered quality program called CQI (continuous quality improvement) in order to know how to adapt itself to the changing environment. Successes were significant and dramatic in all areas from reduced process time, through improved customer relations to higher productivity with reduced staff turnover and a hundred and nine per cent increase in profits over two years. The bank found the ultimate way of thinking for survival is customer-orientated thinking. Both Bank of America's success factors for the future and Citibank's global banking experience reflects the quality service for the customers. They are putting customers at the highest level of priority, knowing that this is the ultimate way to adapt and to survive in any changing environment. (Kreitner et al., 1996:2).

2.4.2 Leadership

Leadership as defined by Keitner et al. (1999:472) is a social influence process in which the leader seeks the voluntary participation of subordinates in an effort to reach organizational goals. According to Lewis (2001:4) Colin Powell, United States Secretary, necessitates the following two lessons on leadership:

Lesson 1

"The day soldiers stop bringing you their problems is the day you have stopped leading them. They have either lost confidence that you can help them or concluded that you do not care. Either case is a failure of leadership."

If this were a litmus test, the majority of leaders would fail. They build so many barriers to upward communication that the very idea of someone lower in the hierarchy looking up to the leader is ludicrous. The corporate culture they foster often defines asking for help as weakness or failure, so people cover up their gaps and the organization suffers accordingly. Real leaders make themselves accessible and available. They show concern for the efforts and challenges faced by underlings even as they demand high standards. Accordingly, they are more likely to create an environment where problem analysis replaces blame.

Lesson 2

"Organization charts and fancy titles count for next to nothing." Organization charts are frozen, anachronistic photos in a work place thought to be as dynamic as the external environment around you. If people really followed organization charts,

companies would collapse. In well-run organizations, titles are also pretty meaningless. At best, they advertise some authority, an official status conferring the ability to give orders and induce obedience. But titles mean little in terms of real power, which is the capacity to influence and inspire.

Have you ever noticed that people will personally commit to certain individuals who, on paper (or on the organization chart), possess little authority, but instead possess pizzazz, drive, expertise, and genuine caring for teammates and products? On the flip side, non-leaders in management may be formally appointed with all the perks and frills associated with high positions, but they have little influence on others, apart from their ability to extract minimal compliance to minimal standards.

Within any organization, it is the leadership, which defines the vision of tomorrow for employees, and then dedicates itself to making it happen. The vision pulls them to excellence, its “reason for being”. It is the leadership that shares the vision with others and inspires them to follow, and that fosters constant innovation and vigilance to quality in pursuit of the vision. One Valley Bank’s shared vision of putting employees first and exceeding customer expectations gives the employees a big picture to create a long-term future of success and personal fulfillment, and the management commitment shows every aspect of change, employee participation and process improvement. Bank of America, one of the top ten national banks in the United States of America, starts to share its idea of service excellence with employees from the moment they first hire them. Citibank’s outstanding performance, providing a “total and seamless worldwide banking

experience", could not have been achieved without the employees' shared vision of a global banking experience for customers.

In summary one can conclude that when bank employees, suppliers and customers regard the management as committed to, and clear about, the vision and view actions as consistent with the required changes in behavior, they will make efforts to embed the bank's culture for future success.

2.4.3 Employee development

Organizations are finding that yesterday's competitive advantage is becoming the minimum entrance requirement for staying in business. This puts tremendous pressure on organizations to learn how best to improve and stay ahead of competitors. It is therefore important for organizations to enhance and nurture their capability to learn. (Kreitner et al., 1999:598).

A critical step towards service excellence is investing in the skills and knowledge development of servers, giving them the preparation to serve and in so doing, stoking their desire to serve. The training/learning should focus on understanding why service excellence is important to both the organization and the individual employees, not just how and what needs to be done. The combination of developing skills, on the job knowledge, and initializing organizational goals should be the key purpose of the employee training. It can stimulate their enthusiasm about their work and about new challenges to satisfy customer expectations.

Employee development starts from recruiting personnel who have the ability, desire and personality to be excellent service providers such as in the case of Bank of America. Employees are considered as strategic assets, and empowering those service providers at One Valley Bank means they have the flexibility and creativity to serve customers better. (Kleiner et al., 1996:26).

High performance banks are shifting from a focus on the organization to a focus on process. The primary emphasis on the process is how the work is to be done in order to satisfy customers' needs or a larger market. Consequently it reflects the customers' point of view, rather than the organization's point of view. (Kleiner et al., 1996:26).

In One Valley Bank, improved processes for loans and mortgages resulted in higher market share and customer satisfaction. The data warehouse system and extended cash management system at Bank of America improved efficiency of the operating processes and gave more information on customers for better services. (Kleiner et al., 1996:26).

Citibank's extensive worldwide ATM network has successfully met customer needs as well as tremendously improved operating efficiency. Effective use of technology for process improvement becomes a part of quality service. It gives the banks more information on what customers need, so that when the banks can fully satisfy those needs to become their own competitive advantages. (Kleiner et al., 1996:3).

The adaptability to the changes is coming forth in several ways in the banking industry: employee empowerment, process improvement and application of technology. However, the basic idea of adaptability is the banks' cultural changes towards customer satisfaction. As indicated in the actual cases, to which reference is made above, service excellence is the ultimate differentiator for future success. The most important way to achieve this service excellence is through people empowered employees who can improve their knowledge and skills for customer satisfaction and build up relationship banking. (Kleiner et al., 1996:3).

Applications of modern technology help service excellence, by improving operating processes and helping to gain and collate more information both about and for the customers so that the banks can provide customers with better and more appropriate products and services. Bank of America, One Valley Bank and Citibank share all these common elements of service excellence and consequently are very successful in the banking industry. (Kleiner et al., 1996:3). Service excellence will result in customer satisfaction, which means meeting customers' expectations.

2.5 CUSTOMER SATISFACTION

Parasuraman et al. (1988:15) give findings which suggest that customers' service expectations have two levels of service, namely desired service and adequate service. The desired service level is the service the customer hopes to receive. It is the blend of what the customer believes "can be" and "should be". The adequate service level is that which the customer finds acceptable. It is in part

based on the customer's assessment of what the service "will be", that is the customer's predicted service.

Lewis (1993:20) states that customer needs and expectations are, naturally, subject to change as a function of circumstances and experience. Also experience with one service provider may influence expectations of other. In addition, consumers are increasingly aware of the alternatives on offer and rising standards of service. Their expectations of service and quality are elevated and they are increasingly critical of the quality of service they experience. Higher levels of performance lead to higher expectations and so companies can never be complacent about levels of service. (Lewis, 1993:21).

Customer satisfaction depends on various factors such as waiting, delays and service evaluation, building relationships for customer retention, removal of sources of dissatisfaction and measuring service levels. These factors are discussed below.

2.5.1 Waiting, delays and service evaluation

Katz, Larsen and Larsen's (1991:44) empirical investigation of service evaluation after queuing at a bank, found a negative relationship between time spent waiting and service quality evaluations. It is assumed commonly that a delay will affect a consumer's evaluation of punctuality of service, because punctuality, by definition, refers to an evaluation of "promptness" or adherence to a specific time. (Parasuraman et al., 1985:44).

2.5.2 Building relationships

Parasuraman et al. (1985:46) state that to develop genuine customer relationships is a primary, controllable means of service companies to enlarge customers' zone of tolerance. Customer relationships provide companies with a "goodwill" or credibility factor that encourages customer tolerance.

2.5.3 Removing sources of dissatisfaction

Many management teams institute corrective action systems to root out the causes of customer dissatisfaction and thus enhance customer loyalty. Clearly these things need to be done, but they are no guarantee of customer satisfaction or loyalty. (Gilbert, 2001:27).

2.5.4 Service measurement

Tracking and management of service results are important. Results must be tracked in much the same way as financial performance is reviewed, as indicated by Bowen and Hedges (1993:27) through a regular cycle of:

- data collection;
- information production;
- variance analysis;
- management review, and
- action plan development.

It is also important to respond to changes in what customers want by changing measures and targets to reflect new sets of customers who become "important" and new requirements of satisfaction in terms of new criteria or higher performance

standards. Figure 2.2 shows an example of how to link service quality measures to reflect new customers' needs and expectations.

FIGURE 2.2: LINKING SERVICE QUALITY MEASURES TO NEW CUSTOMERS' NEEDS AND EXPECTATIONS

Marketplace performance		Customer satisfaction	Actions or behaviors
NET NEW ACCOUNTS	NEW ACCOUNTS	**Word-of-mouth referrals**	* Exceptional service quality experiences * Convenience/ease of access * Personal relationships
		Quality of customer sales interaction	* Rapport building * Needs identification * Product knowledge
		Competitive positioning	* "Share of mind" * Ability to deliver on expectations * Credible service quality positioning
	CLOSED ACCOUNTS	**Operational problems**	* Statement accuracy * Turnaround time on credit requests * ATM up-time
		Problem resolution	* Ease of inquiry * Responsiveness * Authority to resolve problems
		Quality of customer service interaction	* Rapport building * Knowledge/professionalism * Waiting time

SOURCE: Adapted from Bowen and Hedges (1993:23)

Communication is one of the key determinants in customer satisfaction and service excellence.

2.6 COMMUNICATION

Kreitner et al. (1999:409) define communication as the exchange of information between a sender and a receiver and inference (perception) of meaning between

the individuals involved. External communication of service providers is the key determinant of a customer's expectations. Promises made by a service company through its media advertising, sales force and other communication raise expectations, which serve as the standard against which customers assess service quality.

Zeithaml et al. (1990:43) indicates that a discrepancy between actual service and the promised service has an adverse effect on a customer's perceptions of service quality. They further argue that in addition to the bank's unduly elevating expectations through exaggerated claims, customers are not always aware of everything done behind the scenes to service them well. Therefore if an organization neglects to inform customers of such behind-the-scenes effort, it can influence customer's service perceptions unfavorably.

According to Murphy (2000:15) customers, external and internal need to have easy access to a listener. Murphy (2000:15) distinguishes between internal and external customers as follows. Internal customers have team leaders and managers. If there is a routine way of communicating between them, something similar should be provided for external customers to communicate with the organization. As with internal customers, this should be easily accessible and the information distribution should be managed.

What the customer says is what governs the work done by employees. Whether the communication is between customers and the organization, or between people

within the organization, it should be easy to understand. Small print and convoluted language are barriers to understanding. This means that a customer must be able to read and understand the small print on an application form for a credit card, a mortgage or other financial service. (Murphy, 2000:15).

2.7 SERVICE FAILURES

It is very important that one acknowledge the customer expectations for service recovery, because unfortunately service failures can occur, mostly due to communication problems. Bither, Booms and Moho (1994:95) have investigated service failures and customer expectations of service recovery as detailed below. Service failure is typically determined by elements such as the nature of the service encounter, the cause of the problem and the psychographics of the individuals involved. In current research, service failure is defined from the customers perspective, because this is what a company needs to recover from: any dissatisfaction or problem that a customer perceives in relation to a service or a service provider, regardless of the sources or the cause.

Bither et al. (1994:95) has used the critical incident technique to collect service incidents that generated either satisfaction or dissatisfaction for customers, which enabled classification of service incidents in relation to:

- employee responses to customer needs, such as customer preferences and admitted customer error;
- employees' responses to service failures such as unavailable or slow service;

- unprompted employee actions, to include attention paid to the customer and performance under adverse circumstances, and
- problem customers encompassing lack of co-operation, verbal abuse and drunkenness.

One of the interesting findings of Bitner, Boom and Tetreault (1990:80) is that it is not the initial failure to deliver the core service alone that cause dissatisfaction but rather the employee's response to the failure. Bitner et al. (1994:100) further state that employees are highly unlikely to describe customer dissatisfaction as being caused by their own pre-dispositions, attitudes and spontaneous behavior. Customers on the other hand will be likely to blame the employee rather than anything they themselves might have contributed.

For the most successful companies, there is a handful of customers that create the profits. These are the customers that a company cannot afford to lose. When the Cumberland Bank in the United States of America analyzed the top five percent of their branch customer base, they discovered that:

- These top customers generate forty percent of total deposits.
- A five percent increase in retention among top customer's yields a four percent increase in profitability.
- The minimum balance of the top twenty percent of customers is US $20 000. (Murphy, 2000:21).

Murphy (2000:21) further quotes the following statistics from the council on financial

competitions 1995 report, Perfecting Customer Retention and Recovery on overview of Economics' and Proven Strategies:

- Increasing customer retention by five percent adds more than three years to the average customer's lifetime.
- Defection rates decline markedly as customer tenure increases in a financial institution.
- Account usage per relationship increases over time.

These results illustrate the importance of customer retention, and show the importance of knowing how to deal with service recovery.

2.8 SERVICE RECOVERY

Slack et al. (1998:722) go further, stating that not all failures are directly caused by the operation of the service provider, as customers can misuse the products and services. For example, the sequence of questions at automatic teller machines is designed by banks in such a way as to make their operation as "fail-free" as possible.

All service organizations, however quality driven, will find themselves in a situation in which failures occur in their encounters with customers with respect to one or more dimensions of service quality, and where they need to deal with customer dissatisfaction. The actions that a service provider takes to respond to service failures are termed service recovery. A growing number of researchers have identified service recovery as a rather neglected aspect of service marketing and

one which warrants much greater research attention. (Andreason, 1999:325).

The need for a systematic approach in dealing with customer dissatisfaction and complaints is implied in the definition of Zemke and Bell (1990:43) on planned service recovery: "A thought-out, planned process of returning aggrieved customers to a state of satisfaction with the organization after a service or product has failed to live up to expectations." This recognizes that the response from an organization to service failures needs to be the result of a conscious co-ordinated effort of the firm to anticipate that service flaws will occur and to develop procedures, policies and human competencies to deal with them.

Service recovery has outcome (or technical) and process (or functional) dimensions according to Parasuraman et al. (1988:31). The outcome dimension is what the customer actually receives as part of the firm's efforts to recover, whereas the process dimension of service recovery is concerned with how this is done. Berry and Parasuraman (1991:15) suggest that the outcome dimension is more important when the original service is delivered, but the importance of the process dimension is accentuated in service recovery. However, this may depend on the service under consideration.

Service recovery is more than complaint handling and involves interaction between a service provider and a customer; a shortfall in the provision of the original service; a response on the part of the provider to the service shortfall and a desired result to turn a dissatisfied customer into a satisfied one. A good service recovery

system will also detect and solve problems, prevent dissatisfaction and be designed to engage complaints. Even if post service recovery satisfaction is below failure - free service, satisfaction as suggested by McCullough, Berry and Yadav (2000:121) does not detract from the observation that good service recovery can still have a beneficial impact on consumer evaluations.

The need for service recovery systems has emerged from elements in the business environment and factors related to patterns of customer complaining and business response. The business environment is characterized by increasing consumer awareness and sophistication, customers who want more in terms of quality service and do more about it when they do not receive it. So meeting both initial service expectations and also service recovery expectations becomes an element of differentiation and competitiveness. (Mitchell and Critchlow, 1993:15).

In addition, service recovery may be seen as critical for customer satisfaction and evaluation of a firm's quality performance. Grönroos (1988:10) has viewed service recovery as a dimension of service quality, and Berry and Parasutaman (1991:16) have found in a study on banking that six of the top ten attributes of service that were important to customers involved problem resolution.

Spring, Harrell and Mackay (1995:15) have found that service recovery performance influences overall satisfaction and behavioral intentions such as word-of-mouth communications and repurchase. Similarly Halstead and Page (1992:1) have found that dissatisfied customers are more likely to repurchase when their complaints are dealt with satisfactorily. These findings imply that strong service

recovery may enhance customer loyalty. More recently McCullough et al. (2000:122) have cast doubt on the recovery paradox and suggested that failure of free service leads to more desirable outcomes than excellent recovery from failure. However their results do point to service recovery being influential in mitigating the damage done to satisfaction, suggesting that recovery strategy continues to be a significant issue for service providers.

Thus one of the most important benefits of effective service recovery is the prevention of customer defection to other providers. Customer retention is a significant business aim since it is now widely accepted that gaining new customers is more costly than keeping existing ones, so that a customer is more profitable the longer he/she stays with the company. (Reicheld and Sasser, 1990:105).

Kotler (2000:49) has the following to say about customer retention:

- Acquiring new customers can cost five times more than the costs involved in satisfying and retaining current customers. It requires a great deal of effort to induce a satisfied customer to switch away from current suppliers.
- The customer profit rate tends to increase over the life of the retained customer.

Kotler (2000:49) further argues that there are two ways to strengthen customer retention namely:

- To erect high switching barriers.
- To deliver high customer satisfaction through quality service.

Of the above the second way is the better approach.

Service recovery also facilitates the tracking of failures and the development of databases to gain insight into failures in order to deal with them and try to prevent them from happening again. Other advantages of a good service recovery system are increased opportunities for cross selling to retained customers, the reduction of perceived risk for new customers and enhancement of company image among employees and customers. (Armistead et al., 1995:7).

2.9 CUSTOMER EXPECTATIONS FOR SERVICE RECOVERY

If customers perceive a service failure, with respect to any dimensions of service quality (outcome and/or process) then their service expectations are not met. When this happens, another set of customer expectations become active, namely service recovery expectations.

Kelly and Davis (1994:52) have researched members of a health club and found those higher levels of perceived service quality and higher levels of organizational commitment lead to higher expectations of service recovery efforts. They have also found that customer satisfaction has an indirect effect on recovery expectations because it enhances organizational commitment. The implicit suggestion of Kelly and Davis (1994:430) is that the better the job a company does in keeping customers quality perceptions high, the more effort it needs to put into recovery efforts from occasional failures in order to meet its customers' recovery expectations.

One can then ask, what should the content of service recovery be? What does the customer expect a service firm to do to deal with service problems? Zemke and Bell (1990:42) and Zemke (1994:17) have concluded from their research that a customer's expectations for service recovery are:

- to receive an apology for the fact that the customer is inconvenienced;
- to be offered a "fair-fix' for the problem;
- to be treated in a way that suggests the company cares about the problem, about fixing the problem, and about the customer's inconvenience, and to be offered value-added atonement for inconvenience.

Kelly, Hoffman and Davis (1993:429) and Hoffman, Kelly and Rotalsky (1995:49) in their studies in retailing and restaurants have identified various types of recoveries. The researcher regards Johnson (1994:17) and Armistead (1995:6) as the authors with the most comprehensive list of factors leading to a satisfactory service recovery experience. A comparison of these factors as perceived by customers and managers can be seen in table 2.3 below.

TABLE 2.3: FACTORS FOR A SATISFACTORY SERVICE RECOVERY

JOHNSON (1994) **Perception of customers**	**ARMISTEAD et al. (1995)** **Perception of management**
Attention	Getting it right and solving the problem
Helpfulness	Courtesy
Care	Caring and honest responses
Responsiveness	Immediate and speedy response

Communication	Listening
Flexibility	Financial compensation

SOURCES: Johnson (1994:17) and Armistaed et al. (1995:6)

As can be seen in table 2.3 almost all the factors listed as important for service recovery are identically in the perception of both the managers and customers. Only flexibility is listed by customers versus financial compensation as listed by management. Knowledge of both customers' and management's expectations is not enough for service satisfaction. An organization has to train its staff, and therefore manage its staff relations.

2.10 MANAGEMENT AS A DETERMINANT OF SERVICE

Kreitner et al. (1999:6) has defined management as the process of working with and through others to achieve organizational objectives efficiently and ethically. Managers such as Virgin boss, Richard Branson, The Body Shop's Anita Roddick or IKEA's founder, Ingvar Kamprod, are so successful because of their conviction that in business staff should come first. "Direct contact with people is more valuable than any market survey," says Ingvar Kamprod. (Kreitner et al., 1999:6).

"Virgin staff are not mere hired hands. They are not managerial pawns in some gigantic chess game. They are entrepreneurs in their own right", states Richard Branson. "When people say 'I can't do it' or 'I am the only person' a very effective answer is 'if you think you are too small to be effective, go to bed with a mosquito.'"

concludes Anita Raddick. (Kreitner et al., 1999:5).

Bennett and Brown (1992:30) agree that the problem is not with training, it is with managing. Creating a successful sales and service organization requires a systematic change in the behavior of people throughout the bank. Far too often senior managers assume that only a training program will cause their employees to change their attitudes and to start behaving differently. Managers decline to be involved in linking the training to their own priorities. However the best training programs in the world will fail if managers do not reinforce sales and service in daily interaction with their staff.

Sales and service excellence is a journey. Without question, management is the driving force behind it. Managers not only set the direction but also provide the power to get things started and keep them rolling. According to Bennet and Brown (1992:30) employees respond to the following signals from their managers:

- What their managers tell them they want.
- What their managers pay attention to.
- What they praise and reward them for.
- What they hold them accountable for.

For example, new tellers are taught that “good customer service” is their prime responsibility, but back on the job, they quickly learn that balancing out is the most important objective of all. A teller is more likely to be fired for being out of balance than for serving customers poorly. Also, during training sessions tellers are taught

To take time to talk with their customers, but back in the branch they are pressured to keep the lines moving with a maximum waiting time of five minutes for each customer! (Bennett and Brown, 1992:30).

Management practices are the “software” that drives the sales and service organization. Most bankers can describe in detail the steps required in their banks to get credit approval. The steps and the practices are well understood by everyone. Is it the same for service? (Bennett and Brown, 1992:30). According to Kemp (2000:223) management give considerable lip service to customer satisfaction but often neglect an opportunity both to maximize their customer dissatisfaction recovery processes and effectively to utilize customer feedback to improve performance.

2.11 CUSTOMER SERVICE IMPLEMENTATION AND BEST PRACTICES

Sadly some bank employees see the customer as a necessary nuisance, an interruption to the more important business of pushing paper. They regard their work as great, except for all the customers. This way of thinking should change so that customer receives consistent service, day in and day out, not just when the boss is around or when pay increases are in the offing.

As one bank trainer puts it, “you do not build a service strategy by talking theory. You do if one customer transaction at a time.” Paying more than lip service to customer care activities often requires a complete revamping of the internal

workings of a bank. Services have to be designed to suit the customer, not bank personnel. Implementing a customer service strategy is no picnic. It requires a considerable commitment of time and resources. As such, it's a difficult strategy to copy and therein lies its continuing advantage. (Furlong, 1991:12).

Service starts at the top or it does not start at all. "You have to break down some of the traditional decision-making roles", says Rex Bennett, principal of Achieving Unlimited Company, a consultant on competitive strategies and customer retention in financial services. Ultimately, such empowerment requires a change in attitude at the very top. (Stoneman, 2000:18). Therefore one should take cognizance of practices and standards of other organizations to ensure excellent customer services so as to retain customers in today's competitive environment. Also important is how management can effectively deal with complaints.

2.11.1 Best practices and standards

The best service providers set high service quality standards. Culture (2000:440) has used Swissair as an example, as it expects to have at least ninety six percent of its passengers rating its service as good or superior. Kotler (2000:440) has also cited Citibank as aiming to answer phone calls within ten seconds and replying to customer letters within two days. The above two examples illustrate that standards should be set high.

Visible service symbols such as a customer care mission statement, as well as service incentives and measurements can help overcome employee skepticism.

Don't just tell employees that good service pays off, show them through pilot programs or "pockets of change", and have self-doubters reflect on their own treatment as customers. (Furlong, 1991:12).

A ninety eight percent accuracy standard may sound good but it would result in Federal Express losing sixty four thousand packages a day, ten misspelled words on each page, four hundred thousand misfired prescriptions daily and unsafe drinking water eight days of the year. Companies can be distinguished between those offering "merely good" service and those offering "breakthrough" service, aiming at a hundred percent defect-free service. (Kotler, 2000:440).

According to Furlong (1991:12) sixty eight percent of customers who have opted out of a company relationship did so because of employee indifference.

It confirms the importance of the front line in making service quality happen. Stoneman (2000:18) says that one should not be too quick to blame the folk in the trenches for sub-standard customer care, and should remember that employees take their cues from senior management.

2.11.2 Effective complaint management

According to Kemp (2000:225) there are three key objectives to effective complaint management:

- Aim to resolve customer dissatisfaction at first point of contact whenever practical to do so.
- Provide an effective escalated process for resolving any customer

dissatisfaction not resolved at the front line.

- Collect customer dissatisfaction data at all levels: analyze and report issues together with recommendations for improvements to all levels.

Where possible customer dissatisfaction should be addressed and resolved at the first point of contact. This means that all customers facing staff must be equipped with the skills and empowerment to resolve at least basic problems immediately. Studies by Kotler (2000:442) on customers' dissatisfaction show that customers are dissatisfied with their purchases about twenty percent of the time, but only about five percent complain. The other ninety five percent either feel that complaining is not worth the effort, or that they don't know how or to whom to complain. Of the five percent who complain, only about fifty percent report a satisfactory problem resolution. Yet the need to resolve a customer problem in a satisfactory manner is critical. An average, satisfied customer tells three people about a good product or service experience, but the average dissatisfied customer complains to eleven people. Therefore it seems that loyal customers are those whose complaints are satisfactorily resolved.

Empowerment of staff is important even if the right skills are in place, as it is highly unlikely that front line staff without authority or time will resolve customer problems effectively. An example of the above is cited by Kemp (2000:225). During his holiday at a hotel, frontline staff were frequently frustrated by not having the systems or empowerment to resolve customers' problems. One of the reasons that front-liners are not empowered to resolve problems is that listening to customers' concerns and finding solutions takes time. Most call centers, for example, are

driven by call duration and wrap-up time and therefore staff are pressured to minimize call waiting and maximize call volumes. (Kemp, 2000:225). This is a difficult situation as staff can only be made accountable if having the authority to act appropriately.

2.12 SUMMARY

Service quality - and how it influences customer retention - has been investigated. Also important is that management must set an example for staff on how to solve customer breakdowns, so as to ensure loyalty. The importance and benefits of providing quality service to the customer, is critical for the future existence of an organization and more specifically retail banks. Chapter three will focus on the methodology of how to investigate service quality through an empirical study.

CHAPTER 3

METHODOLOGY OF THE STUDY

3.1 INTRODUCTION

In Chapter two-service quality was investigated and discussed through a literature study. The main problem being researched in this study is the question of how to improve service quality in a selected financial institution. In carrying out the empirical investigation it was decided to limit the respondents to a certain sub segment of the customer base of the selected financial institution. The investigation will focus on the high-income group in the personal market segment.

3.2 RESEARCH DESIGN

Choosing a research design involve decisions regarding the purpose of the research, the intended use of the research, units of analysis, the time dimension and the data collection techniques used.

Allison, O'Sullivan, Owen, Rice, Rothwell and Saunders (1996:4) define research as a systematic enquiry that is reported in a form that allows the research methods to be accessible to others. They note that research is concerned with seeking solutions to problems or answers to questions. With this in mind, the research design for this study was broken down into a main problem, with two sub problems.

The main problem is:

HOW TO IMPROVE SERVICE QUALITY IN A SELECTED FINANCIAL INSTITUTION?

Following on from the main problem, two sub problems were identified to assist with the solution to the main problem namely:

- ***How to solve service breakdowns by the selected financial institution?***
- ***How to retain customers after a service breakdown has occurred?***
- ***What is service quality and how to apply it to obtain service excellence?***

3.2.1 The purpose of the research

A descriptive study is undertaken in order to ascertain and to describe the characteristics of the variables of interest in a situation. Descriptive studies are also undertaken to understand the characteristics of organizations that follow

certain common practices for example the service strategies implemented by a specific organization. (Radder, 2001:402). The purpose of this study is to determine if service quality is influencing customer retention at a selected financial institution.

3.2.2 The use of the research

This research can be classified as applied research. Applied research tries to solve specific practical problems. The results of this research, whether positive or negative, will be used to improve service quality at the selected financial institution.

3.2.3 Units of analysis

The researcher has selected a financial institution, and more specifically three branches on the South Coast of KwaZulu Natal.

- Branches selected:
  - Scottburgh
  - Margate
  - Port Shepstone

- Customer segment selected:
  - Personal Market

- Sub segment of the personal market:
  - High-income group with a behavioral relationship indicator between four and nine on their cheque account. The main factor that

influences the BRI (behavioral risk indicator) score is based on the conduct of the account as well as on the turnover value of deposits. The customer does not know the score, as it is an internal evaluation to rate the conduct of the account.

3.2.4 Methodology

The empirical study was done through telephonic interviews with the respondents. A structured questionnaire was used (see Annexure A). The process followed during the empirical study is set out below.

3.2.5 Questionnaire construction

The questionnaire is a common instrument for observing data beyond the physical reach of the observer. (Leedy, 1997:191). The questionnaire was constructed to facilitate a telephonic interview. Telephonic interviews are less time consuming and less expensive (they involve only the cost of long distance telephone calls) and the researcher has ready access to virtually anybody who has a telephone. (Leedy, 2001:197).

Thomas (1996:121) states that questions should not lead respondents who do not have clear views of their own on a particular issue. Grammar should be simple and the aspects that respondents have to keep in mind should be limited in order for them to understand the question. Specific terms should be used in preference to abstract ones, ensuring a clear understanding of the question by the respondent, that is, the questions should be easy for the respondent to answer. When drawing

up the questionnaire the researcher attempted to follow the above guidelines.

3.2.6 Purpose of the questionnaire

The structured questionnaire was developed taking the main and the sub problems into account. The questions were selected to address the requirements for improving service quality and to implement strategies to address service breakdowns.

3.2.7 Physical characteristics of the questionnaire

Section A contains the biographical data of respondents with reference to:

- age group;
- gender;
- occupation, and
- date account opened.

Section B contains telephonic moderation, which includes questions pertaining to:

- telephonic contact;
- answering of telephones, and
- time taken to answer and solve telephonic queries.

Section C evaluates service quality. It was broken down into specific sub headings covering specific activities that take place in a normal service encounter between a bank and external customer, such as:

- problem resolution, and

- customer retention.

3.3 TYPES OF QUESTIONS ASKED

Alreck and Settle (1985:119) state that there are two basic formats for survey questions: unstructured and structured. Unstructured questions are sometimes called “open-ended” questions because respondents can give a personal response to the questions. According to Behr (1988:157), respondents can state their case freely in the open-ended section of the questionnaire and this evokes further and richer responses than the closed questions. Structured survey items ask a question and then list the alternative answers the respondent must choose from. Both open- ended and closed questions were used in the questionnaire for the empirical study.

Behr (1998:158) states that the most commonly used form of attitude scale where the respondent chooses a point on a scale that best represents his/her view, is that devised by Rensis Likert in the 1930’s. In this research a ten point Likert type scale was used. The scale used in the structured questionnaire varies from one to ten, one being very poor and ten being excellent. This falls in line with the current rating scale that is used internally by the financial institution.

3.4 SAMPLING

Sampling is the process of selecting a sufficient number of elements from the population so that by studying the sample, and understanding the characteristics of the sample subjects, it would be possible to generalize the characteristics to the populations. (Radder, 2001:406)

According to Leedy (2000:211) different sampling designs may be more or less appropriate in different situations. For this research non probability sampling was used as respondents had to be in the personal market within the high income group with a BRI score between four and nine on their current account in three selected branches on the South Coast of Kwa Zulu Natal.

3.4.1 Non-probability sampling

When this type of sampling is used, findings from the study cannot confidently be generalized to the population. Non-probability sampling can take various forms, such as convenience sampling and purpose sampling. Convenience sampling involves collecting information from members of the population who are conveniently available.

The reason for using convenience sampling was that the researcher resides in Kwa Zulu Natal and is employed by the financial institution and therefore has access to the respondents' accounts. The reason for selecting the high-income group in the personal market segment is that it is important for this financial institution to obtain the selected information as this group contributes to a relatively big proportion of the turnover of the financial institution. The average revenue of the respondents is the highest in the personal market, mainly due to their making use of the bank's loan and investment products with a high exposure per respondent. Twenty of the sample of 50 is medical doctors. All the respondents were telephonically interviewed.

3.5 PROBLEMS EXPERIENCED WITH THE RESEARCH

When the researcher drew up the original proposal to do the research, the financial institution had no problems in sanctioning the request. When a written request was handed in seven months later, the financial institution posed the concern that the customers are requested on a monthly basis to give the ratings on service in the branches.

The bank's monthly service evaluation questionnaire done by an independent company and that of this study differ in the following areas:

- problem resolution, and
- customer retention.

Notwithstanding the financial institution's concerns the researcher explained the reason for the survey to the respondents up front and asked the respondents whether they had any objections to taking part in the survey. Permission was asked from the Provincial Management of Retail Banking in KwaZulu Natal who allowed the researcher to proceed.

When using the telephonic interviewing method, the response rate is not as high as for a face to face interview (there is the occasional person who is busy, annoyed at being bothered or otherwise not interested in participating). It is considerably higher than for a mailed questionnaire. (Leedy, 2000:197). The timing of the telephonic interview posed a problem as respondents in the medical and legal

fields had appointments and were sometimes off premises. In the beginning the researcher lacked confidence and was uncertain as to how to conduct the telephonic interview. However after two or three calls the researcher's confidence increased.

3.6 SUMMARY

In this chapter the methodology was discussed in detail by referring to the research design, the purpose of the research, sampling and the problems that were experienced. In chapter four the results obtained from this empirical study are summarized and analyzed.

CHAPTER 4

ANALYSIS OF DATA

4.1 INTRODUCTION

In chapter three the methodology employed to do the empirical investigation was discussed. Chapter four presents the analysis of the results of the empirical study, followed by the summary of the results after each individual rating.

4.2 RESPONSE RATE

Of eighty respondents telephoned only fifty responded, giving a response rate of sixty two point five percent. The reasons for not being able to include the other thirty respondents were:

- no reply;
- wrong telephone number;
- respondent is overseas;
- respondent on vacation, and
- respondent is in consultation.

The results of the biographical data and rating of branches are summarized below.

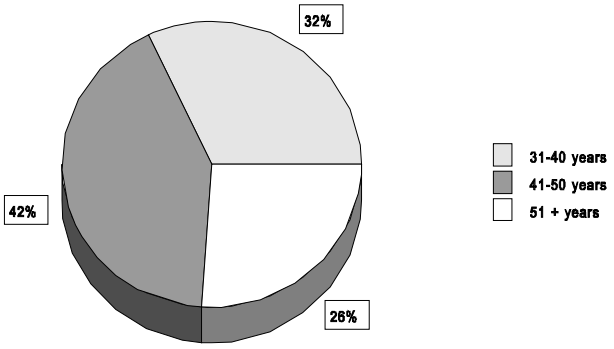
4.3 RESULTS OF THE BIOGRAPHICAL DATA

The results of the biographical data include age, gender, occupation and for how long the account has been active.

4.3.1 Age

Figure 4.1 shows the age distribution of respondents.

FIGURE 4.1: AGE



As can be seen in figure 4.1, 42% of respondents are in the 41 to 50 age group, 32% are in the age group 31 to 40 years and 26% of the respondents were 51 years or older. The majority of respondents are less than 50 years old.

4.3.2 Gender

Out of the 50 respondents that were interviewed 80% were males and 20% were females.

4.3.3 Occupation

Figure 4.2 shows the occupation distribution of respondents.

FIGURE 4.2: OCCUPATION

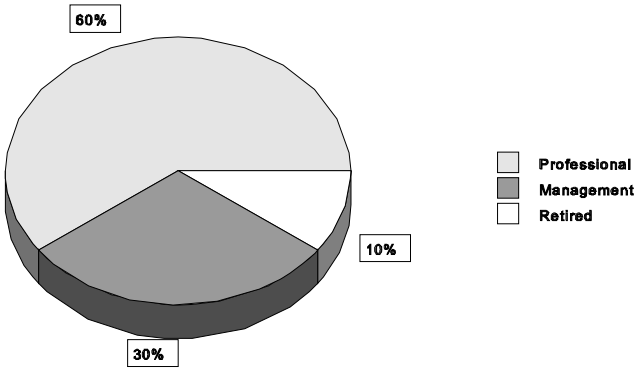


Figure 4.2 illustrates that 60% of the respondents are in the professional market, 30% are either self-employed or in a management position and the remaining 10% are retired.

4.3.4 Account date

Of the 50 respondents that were interviewed 94% of the accounts were opened before the year 2000. The remaining 6% were opened in the subsequent 22 months.

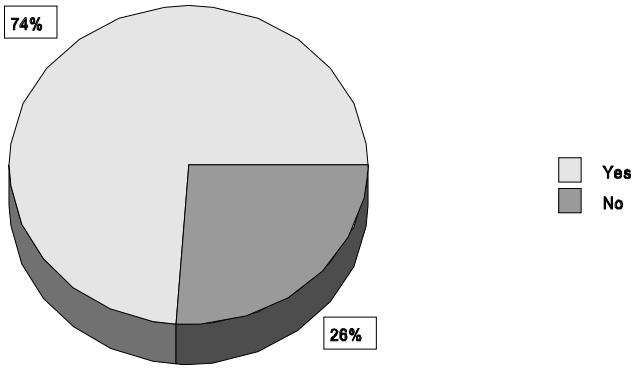
4.4 RESULTS OF THE RATING OF BRANCHES

The results of the rating of branches measured the telephonic interaction, and staff and service efficiency.

4.4.1 Telephonic interaction

Of the 50 respondents 37 had telephonic interaction with their branch during the three months immediately preceding the survey. Thirteen respondents had no contact. These results can be seen in figure 4.3 below.

FIGURE 4.3: TELEPHONE CONTACT



The respondents who had contact gave the following reasons why they had the contact:

- general enquiry's;
- internet enquiry's;
- copy statements;
- increase facilities;
- investment rates;
- problem resolution, and
- home loan enquiry.

As can be seen, various reasons were given for contacting the bank, not just for problem resolution. Of the 37 respondents who had telephonic contact during the previous three months, three respondents revealed that the telephone was not answered promptly. These three respondents indicated that the time taken to answer the telephone varied from one minute to two minutes.

Seven of the 37 respondents who telephoned the bank during the previous three

months indicated that they were not directed to the correct person immediately. The reasons given vary as follows:

* The bank official was on leave.
* The bank official was on lunch.
* The bank official was busy.

Two respondents indicated that they were put through to the wrong extension and two respondents indicated that they were unable to locate the correct bank official.

Of the seven respondents who telephoned the bank about a problem, three indicated that their queries were not handled efficiently. The reasons for inefficiency vary as follows:

- The bank official could not trace the depositor of the funds.
- The bank official at home loan registration did not come back to the respondent.
- The bank official could not explain the specific bank charges on the current account.

On a rating scale of one to ten, only the ratings seven and above were indicated by respondents for the above. The results of the overall rating of telephonic interaction is shown in table 4.1 below.

TABLE 4.1: OVERALL TELEPHONE RATING

Rating scale	Number of respondents	Product
7 8 9 10	5 13 8 8	35 104 72 80
Total	**37**	**291**
Average		**7.86**

Table 4.1 indicates that the majority of the 37 respondents rated the telephone service eight or higher and the average rating was 7.86 due to the five respondents giving a rating of seven.

4.4.2 Staff and service efficiency

The results of the friendliness and helpfulness of staff are shown in table 4.2 below.

TABLE 4.2: FRIENDLINESS AND HELPFULNESS OF STAFF

Rating scale	Number of respondents	Product
5 6 7 8 9 10	1 4 3 12 16 14	5 24 21 96 144 140
Total	**50**	**430**
Average		**8.6**

Table 4.2 indicates that 32% of the respondents rated the friendliness and helpfulness of service as nine, although the average rating was 8.6 due to 40% of

the respondents that rated the service below nine. Table 4.3 indicates the results of the ratings of whether staff handled transactions fast and without mishaps.

TABLE 4.3: HANDLING TRANSACTIONS FAST WITHOUT MISHAPS

Rating scale	Number of respondents	Product
3	1	3
5	2	10
6	3	18
7	8	56
8	14	112
9	14	126
10	8	80
Total	**50**	**405**
Average		**8.1**

Table 4.3 indicates that 72% of the respondents rated staff handling transactions fast and without mishaps as eight and above. The average rating was 8.1. In table 4.4 below the results of the ratings of staff's knowledge and competence are given.

TABLE 4.4: KNOWLEDGE AND COMPETENCE OF STAFF

Rating scale	Number of respondents	Product
2	1	2
5	1	5
6	4	24
7	11	77
8	16	128
9	9	81
10	8	80
Total	**50**	**397**

Average		**7.94**

Table 4.4 indicates an average rating of 7.94, however the majority of the respondents (66%) gave a rating of eight and higher. The results of whether the staff understood the financial needs of customers is illustrated in table 4.5 below.

TABLE 4.5: UNDERSTANDING FINANCIAL NEEDS

Rating scale	Number of respondents	Product
1	**2**	**2**
4	**1**	**4**
5	**1**	**5**
6	**5**	**30**
7	**12**	**84**
8	**17**	**136**
9	**5**	**45**
10	**7**	**70**
Total	**50**	**376**
Average		**7.52**

Table 4.5 indicates that 58% of respondents rated that staff understand the financial needs of customers as eight and higher. The average rating is below the national benchmark at 7.52. In table 4.6 the results of the rating of staff's guidance and information on products and services were given.

TABLE 4.6: GUIDANCE AND INFORMATION ON PRODUCTS AND SERVICES

Rating scale	Number of respondents	Product
4	2	8
5	1	5
6	5	30
7	11	77
8	18	144
9	8	72
10	5	50
Total	**50**	**386**
Average		**7.72**

Table 4.6 indicates that 36% of the respondents gave a rating of eight for staff's guidance and information provided on products and services. The average rating dropped below the eight to 7.72. The reason for this is that 38% of the respondents gave a rating of below eight. Table 4.7 below indicates the results of the rating whether staff treat customers with respect.

TABLE 4.7: TREATING ALL CUSTOMERS WITH RESPECT

Rating scale	Number of respondents	Product
8	5	40
9	20	180
10	25	250
Total	**50**	**470**
Average		**9.4**

In table 4.7 it can be seen that 50% of the respondents gave staff a rating of ten for treating customers with respect, and of the remaining 50%, 40% gave nine and 10% gave eight as a rating. The average rating is 9.4 which is excellent, as it is close to ten, the highest rating possible. Table 4.8 below indicates the results of the rating whether staff are willing to show customers how to use the ATM and other electronic banking facilities.

TABLE 4.8: WILLINGNESS OF STAFF

Rating scale	Number of respondents	Product
Unable to comment	**7**	**-**
6	**1**	**6**
7	**1**	**7**
8	**7**	**56**
9	**17**	**153**
10	**17**	**170**
Total	**50**	**392**
Average		**9.12**

Table 4.8 indicates that of the 43 respondents, 41 gave a rating of eight and higher on the willingness of staff to show customers how to use the ATM and other electronic banking facilities. Seven of the respondents had no interaction or did not need assistance to show them how to use the electronic channels. The average rating was 9.12. The results of the rating of whether staff give customers personal service by treating them as if they know them is illustrated in table 4.9 below.

TABLE 4.9: PERSONAL SERVICE

Rating scale	Number of respondents	Product
7 8 9 10	2 7 19 22	14 56 171 220
Total	**50**	**461**
Average		**9.22**

Table 4.9 indicates that 44% of the respondents gave full marks, ten out of ten, for personal service, and consequently the average rating was 9.22, which is excellent.

4.5 RESULTS OF PROBLEM RESOLUTION

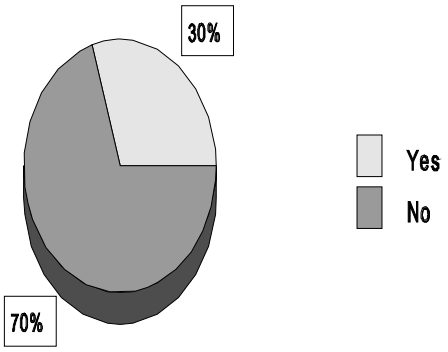
The results of whether problems were experienced by respondents with the bank in the previous three months is illustrated in figure 4.4 below.

FIGURE 4.4: PROBLEMS EXPERIENCED

Figure 4.4 indicates that of 50 respondents 70% had no problems with the bank, whilst 30% had a problem that needed clarification or solution. Of the 15 respondents who had problems 67% reported them to the bank, and 33% did not report their problems. Table 4.10 illustrates the results of how long the branch took to come back to the respondents who had reported problems to the bank.

TABLE 4.10: FEEDBACK TIME

Time taken	Number of respondents	Percentage



Immediately **One day** **Between one and three days** **Between three and seven days** **More than one week**	**2** **3** **1** **-** **4**	**20** **30** **10** **-** **40**
Average	**10**	**100**

Table 4.10 indicates that of the ten respondents, who had a problem, four respondents indicated that it took longer than one week to resolve, which is unacceptable. Of the four respondents, two respondent's problems were not even resolved after one week. Of the six respondents who had feedback on their problems, only one was not satisfied with the outcome. The one respondent who was unsatisfied with the outcome never discussed it with a senior staff member and it was not specified. In summary three respondents problems were not resolved by the date of the survey, indicating a 30% unresolved situation.

4.6 RESULTS OF CUSTOMER RETENTION

The results of measuring customer retention at the branches indicate that 18% of respondents have considered moving to another financial institution. The reasons given for staying and not moving were:

- Various barriers exist, such as change of banking account details and debit order details, as well as advising various institutions, such as medical aids, of the new bank account number.

- All banks are the same.
- Having good banking relationships with individuals at the branch for many years.
- The bank has a well-known brand to be associated with and has advanced electronic banking facilities.

4.7 RESULTS OF THE AVERAGE SERVICE RATING

The results of the average service rating of the branch are summarized in table 4.11 below.

TABLE 4.11: AVERAGE SERVICE RATING

Service activities	Average rating
Overall rating of handling of telephones	7.86
Friendliness and helpfulness of staff	8.6
Handling transactions in good time without mishaps	8.1
The knowledge and competence of staff	7.94
Understanding financial needs	7.52
Guidance and information that staff provide on products and services	7.72
Treating all customers with respect	9.4
Willingness of staff to show how to use ATM and other banking facilities	9.11
Personal service	9.22

Total	**75.47**
Average	**8.38**

Table 4.11 summarizes the various average ratings of services as per individual service activities as discussed in this chapter. The ratings are benchmarked against a rating done through an independent survey company. The company does a monthly service survey for the financial institution. The current objective of the financial institution is to obtain an average service rating of 8.22. All ratings below the given objective are not considered good and need corrective action. Any rating between 8.22 and 9.1 is regarded as good and above 9.1 is rated as excellent.

4.8 SUMMARY

In this chapter the results of the empirical study were analyzed, presented and summarized. The conclusions made from both the empirical study and the literature study will be discussed in chapter five.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

In the previous chapter the results of the findings with regard to the service quality of three branches of a financial institution on the South Coast of KwaZulu Natal,

were discussed. It was indicated in the previous chapter that the national objective of the financial institution for an overall service rating is 8.22 for the year 2001. Each branch of the bank has an individual service-rating target to meet. The targets are based on material data of the specific area, branch or segment and increases every year. The targets are set according to the customer mix and/or potential of the individual unit or branch.

In this chapter, conclusions and recommendations will be made from the results based on the literature study, as well as on a comparison with the benchmark set by this financial institution.

5.2 CONCLUSIONS

In this section the conclusions of the following findings will be discussed:

- biographical data;
- telephonic interaction;
- staff and service efficiency, and
- problem resolution.

5.2.1 Biographical data

The majority of the respondents were between thirty-one and fifty years of age. There were no respondents younger than thirty-one years old. A small minority of the respondents were fifty-one years or older. The aforementioned results indicated that the majority of respondents were economically active in commerce and industry.

The majority of the respondents were males, which could have influenced the outcome of the results. Males and females could differ regarding customer expectation of service quality.

The majority of the respondents were professionals and in the medical field. This could also have an influence on the outcome of the results. Professional people can be very demanding, expecting high quality service at all times from service providers could make these results even more meaningful, as it could indicate to the financial institution the service areas that needs attention. This can lead to a higher retention rate.

The majority of the accounts of the respondents interviewed were opened before the year 2000, and this can therefore have a positive influence on the results as the time frame gives enough time for problems to occur. It also could have a negative influence on the results as respondents could have become so used to a certain standard of service, which might be below industry standards, that it is acceptable to them.

5.2.2 Telephonic interaction

The majority of the respondents had telephonic contact with their branches during the three months prior to the survey. Most of the respondents did not phone the bank due to a problem but to make various enquiries's about products. Of the respondents who had telephonic contact, the majority indicated that they were

satisfied with the promptness in the answering of the telephones.

The minority of respondents were unhappy with how quickly the telephones were answered. Some of the respondents were not put through to the person they asked for in the first place, mainly due to unavailability. The handling of the queries was also not very efficient resulting in unhappy customers and the potential of losing the customer to another financial institution.

The average in this category was 7.86, although the mode was 8. The researcher regarded this rating as not good as it is below the overall service rating of 8,38 used as a benchmark. This is a problem that needs to be addressed as the handling of telephones can enhance customer interaction and communication. The telephonic medium / channel plays a very big part in the service introduction of the majority of service organizations. The literature study indicates that service excellence is linked to the skills of staff. It is therefore critical that this financial institution delivers quality service via its telephone communication channel by upskilling their staff.

5.2.3 Service excellence

In the literature study the main problem was stated as how to improve service quality in a selected financial institution. To solve the main problem, the following sub problems were identified:

- *How to solve service breakdowns by the selected financial institution?*
- *How to retain customers after a service breakdown has occurred?*

- *What is service quality and how to apply it to obtain service excellence?*

5.2.3.1 Staff and service efficiency

In the literature study Mahoney (1994:66) stated that the customer's perception of quality service might be quite different from the banker's definition. The only way to find out is to ask the customer what quality of service they expect from a bank. The information gathered from the customers combined with knowledge of their business objectives and the financial institution's capabilities might give this financial institution a starting point in developing a service excellence quality program.

Zeithaml et al. (1990:21) defines service quality as the discrepancy between a customer's expectations and the service staff's perceptions. Also Bowen et al. (1993:21) state that retail banking is under considerable pressure on a number of points with the result that growth and profitability are likely to be lower than for other financial industry sectors. Service quality is synonymous with customer retention. Attention to service quality may therefore be a key factor in assessing a potential decline in market share.

The empirical investigation has highlighted the following key service interactions that are below eight on the rating scale:

- The knowledge and competence of staff, at 7.94.
- Understanding financial needs, at 7.52.
- The guidance and information staff provides on products and services, at 7.72.

The empirical investigation highlighted the following key service interactions that are above the national target of 8.22:

- Friendliness and helpfulness of staff.
- Treating all customers with respect.
- The willingness of staff to show one how to use the ATM and other electronic banking facilities.
- Personal service.

The only service interaction that is above eight but below the national average of 8.22 is handling transactions in good time without mishaps, currently rated at 8.1. For this financial institution to improve service quality at the selected branches, they will have to increase the service rating that is below the national target of 8.22 to meet customer expectations. The following problems will have to be overcome:

- Handling transactions in good time, without mishaps, can ensure that, should a future unforeseen problem occur, the customer will accept it as a once off occurrence, and not as a standard or a norm.
- The knowledge and competence of staff is critical in any organization to retain and attract customers, therefore the current rating is not acceptable. It reflects negatively on the branch's staff.
- Understanding the customer's financial needs is critical, as this is a financial institution and it is expected that staff must know and understand a customer's financial requirements. Staff might not agree with customers

about what their needs are, but in this event staff should clearly communicate this to the customer.

- The guidance and information which staff provides on products and services is important for the financial institution to increase its profitability. It is the customer that buys the products and services, therefore the financial institution need as to create them with the needs of the customer in mind.

The overall service rating of 8.39 reflects that the three branches are above the national average, though, and are not experiencing major problems.

5.2.3.2 Problem resolution

Bitner et al. (1990:71) have used the critical incident research methodology and found that a large percentage of unsatisfactory service encounters (42.9%) were related to the employee's inability or unwillingness to respond effectively to service failure situations. Parasuraman et al. (1988:15) have said that developing genuine customer relationships is a primary, controllable means for service companies to enlarge a customer's zone of tolerance. Customer relationships provide companies with a "goodwill" or credibility factor that encourages customer tolerance – and a more open communication channel for learning about and correcting service problems.

The empirical results indicated that of the ten respondents, who had problems, nearly half of the respondents waited longer than a week to get a verdict on their

problems. Most of these respondents' problems were still unresolved as at the date of the survey. This is unacceptable as it reflects poorly on problem resolution, and know-how of the financial institution to solve customer problems. Should the problem be of such a nature that it is against the rules and regulations of the financial institution, this needs to be communicated to the customer. On the question of access to senior staff, the majorities were satisfied with the process.

In summary the results indicated that:

- Customer relationships are of utmost importance.
- Constant feedback is required once a problem has occurred.
- Feedback should be effective and timeous.
- A good service recovery system will detect and solve problems.

A study done by Hart, Heskett and Sasser (1990:148) reveals that the service providers realize that only a small proportion of dissatisfied customers complain, but the service recovery process affords an opportunity for organizations to redeem themselves when customers draw problems to their attention. Hart et al. (1990:149) further refer to evidence of customers who have complained and who have received a satisfactory response, subsequently being more loyal to a company. They are more likely to use other services, demonstrating a relationship between customer retention, profitability and success.

The researcher agrees with Lewis (1993:24) that well designed and managed service recovery initiatives have the following benefits:

- They enhance customer loyalty through satisfaction.
- They attract new customers from positive word-of-mouth communications.
- They increase opportunities for cross selling and long term relationships.
- They boost employee job satisfaction, morale and commitment to the company.
- They increase staff loyalty and reduce staff turnover.
- They enhance corporate image and possible insulation from price competition.

The empirical results indicated that more respondents have considered moving their relationship to another financial institution. Some of the reasons given why they did not move are that all banks are the same and that it is too much trouble to change banks.

The literature study and empirical research reveals the following important facts:

- Relationships between staff and customer are very important.
- The image of the branch and of the financial institution is important.
- The credibility of the organization is important.
- A well-designed customer problem resolution process is necessary to eliminate unresolved issues, and unresolved issues should be the bare minimum.

5.3 LIMITATIONS OF THE STUDY

This study only includes the high net worth individuals in the personal market at the three branches of this financial institution. It was therefore not possible to generalize the conclusions to include other segments and sub segments of the customer base. This can only be accomplished by more research covering a broader scope. The population used in the study numbered fifty. This sample might have been too small covering only three branches of this financial institution.

5.4 RECOMMENDATIONS

The results of the study have identified certain areas that need particular attention. A discussion of these areas follows.

5.4.1 Biographical data

The age distribution indicates that the focus should be on those individuals that are economically active in the 30 years and older category, therefore this financial institution should attract future potential candidates through direct service marketing strategies. The gender distribution indicates that the wealth and income distribution are mainly male dominated. This financial institution should in the future have specific strategies in place to attract female customers by offering specific branded products, which are tailored to their needs. Certain players in the financial industry are already focusing on gender specifics with the products and services to meet their specific needs, and this financial institution should also do so to remain competitive.

The occupation distribution indicates that the financial institution needs to retain professional clients and have direct marketing and service strategies in place specifically for the professional market and those customers in managerial positions. This will enable the financial institution to fencing its high contributors from competitors. The account opening data raise a concern that the financial institution has not gained any substantial number of high net worth customers during the previous twenty-two months. It can be due to various factors, of which quality service plays a big role. It will take a collective effort from all staff and a cultural change regarding service and customer relationship management to improve this trend.

5.4.2 Telephonic interaction

The feedback on the answering of telephones was good, but once a call was transferred, problems started to occur. This resulted in a drop in service standards. The financial institution needs to have a proper telephone management system in place. Secondly, training all staff in telephonic techniques could enhance service quality. This should be monitored on an ongoing basis by an independent party, by phoning individual staff members to assess their telephonic answering skills. Constructive feedback needs to be given to the individual staff members. This assessment should be on a rotation basis so that each staff member is assessed at least twice a year.

5.4.3 Staff and service efficiency

The environment of employees needs to stimulate friendliness and the willingness

to help customers. The hygiene factors need to bolster productivity. Management and their style of managing must be assessed on an ongoing basis. Currently the staff satisfaction survey caters only for certain factors and more factors could be included.

The empirical results indicated a rating below the average benchmark for handling transactions timorously without mishaps. It will be critical to reduce turnaround times to meet customers' expectations without problems. It will relieve the pressure on the customer resolution area of the financial institution. A tracking system must be put in place down to the individual level. It will highlight service skills that are lagging. Individual bank officials need to take ownership of the positives and negatives of the service encounter.

The financial institution has a quarterly product quiz in place on a national basis, which has gone a long way to upskill staff. They need to continue with it to enhance the knowledge and competence levels of staff. The empirical results for understanding the financial needs of customers were the lowest of the whole survey. The researcher is of the opinion that the majority of the customer problems can be eliminated through clear communication between the customer and the financial institution. Technology needs to assist staff to bolster the communication process. The semantics of words and the lack of communication skills of staff are two of the major negative aspects, and are difficult skills to be learned.

The rating for the guidance on products and services was also below the average service rating of 8.38. Once again communication, product knowledge and service attitudes are the key drivers to be successful. The upskilling of communication skills together with improving the channel of communication will enhance the rating for the guidance on products and service delivery. It is expected of staff dealing with the high-income group to be knowledgeable on all the products and services on offer. The normal quarterly quiz needs to be followed up with specific wealth creation questions that are relevant and that will add value to staff members and ultimately the customers. Staff needs to be tested on a regular basis.

Treating customers with respect is an area that does not need attention, but retention of current practices need to continue and be evaluated on a continuous basis through current surveys. The financial institution can never do too much to assist and upskill staff and customers on how to make use of the electronic channels. It reduces human intervention and human error simultaneously. The electronic channel plays a big part in the higher income level's daily banking. The financial institution needs to communicate enhancements timorously to the customer as part of a service quality process. Relationship banking will be the future of any financial institution. The delivery of services and products needs to become personalized for the specific customer. It will once again reduce the customer's defecting to the competitors, and make the customer feel special.

5.4.4 Problem resolution

In this study and more specifically in the empirical survey the majority of

respondents had no problems. For the respondents who had a problem and reported it, a large percentage of the problems were not properly solved. The empowerment of staff at the front line needs to be taken care of for a financial institution to remain competitive. This can only be done if the staffs are fully skilled to handle queries that are regularly encountered at the front line.

The problems that are more complicated need to follow a simple tracking process when or where they are presented. The process should be technology driven where a staff member captures data while interacting with a customer. No forms need to be filled in (paperless), as paperwork creates staff resistance and unresolved queries. The solving of problems needs to have a time limit and the problem needs to be flagged on an exception screen at a customer resolution area. All problems need to be resolved within twenty four hours or less. Once again, the communication to the customer needs to be clear and timeous so that the customer is fully informed of what is happening during the resolution process. Should there be any delay or non-acceptance in solving the problem, it needs to be referred to management for resolution or arbitration.

5.4.5 Customer retention

The benchmark for service to this sub segment of the personal segment is very high and proactive, therefore the results should reflect a high rating. All the respondents do have a relationship manager taking care of their banking needs and the retention levels should be high. Customer turnover should be eliminated or reduced. This can be achieved if technology can provide office processes that

give both the customer and frontline staff the same views.

Communication in any customer retention strategy is a key issue and with the centralized approach that the financial institution is following, it is even more important. The chances of service breakdown are high and could result in customer dissatisfaction. Therefore the gap between the customer and the financial institution needs to be narrowed to increase the barriers for exist. This can take place by implementing the following processes:

- Quick turnaround times throughout the organization, supported by an effective tracking and tracing system (paperless).
- Follow up internal and external customer problems through a tracking and tracing system (paperless).
- A service culture throughout the organization, which eliminate stereotypes that do not enhance service and the quality thereof.
- The implementation of the processes needs to take place through an upskilling and training intervention.
- Current systems need to be assessed and enhanced to meet the required standards of service delivery.
- Telephone techniques and response times to be benchmarked against industry standards with the aim of operating at a higher level. This should attract and retain customers for the organization. Management participation and more specifically with senior management adopting the new service culture.
- Staff needs to be motivated and rewarded on an ongoing basis. The processes need to be transparent and the positives and negatives

communicated to staff.

- The current customer evaluation system needs to be narrowed down to the specific department and individual to eliminate non-participation. The old adage is, you are as good as your weakest link. The current process does not highlight the link between the staff member or members who have created the service breakdown.

Service quality thus, is a combination of customer feedback, training, measuring, rewarding and technology, which all work together to make doing business with a financial institution a positive experience.

5.5 RECOMMENDED FURTHER RESEARCH

To increase the general applicability of the findings of this study, future research might involve the replication of this study in a variety of divisions of the financial institution such as:

- homeloans;
- credit divisions;
- wealth creation, and
- card division.

The current internal survey only briefly covers the service evaluation of the abovementioned divisions by customers.

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ANNEXURE A: QUESTIONNAIRE

SECTION A
BIOGRAPHICAL DATA
(Indicate your choice by means of a X)

1. Age Group

20 - 30 years	
30 - 40 years	
40 - 50 years	
50 and older	

2. Gender

Male	
Female	

3. Date account opened

SECTION B
RATING OF TELEPHONES
(Indicate your choice by means of a X)

1. Have you contacted a branch of the bank by telephone in the previous 3 months?

Yes	
No	

If Yes, give a reason?

2. Was the telephone answered promptly?

Yes	
No	

If No, how long did it take?

3. Were you directed to the appropriate person immediately?

Yes	
No	

If No, what was the problem?

4. Was your query handled efficiently?

Yes	
No	

If No, what was the problem?

SECTION C
STAFF AND SERVICE RATING
(Rate the branch on a scale of 1 to 10, 1 being very poor and 10 being excellent)

1.	**Overall rating of handling of telephones at this branch.**	
2.	**Friendliness & helpfulness of staff.**	
3.	**Handling transactions in good time & without mishaps.**	
4.	**The knowledge & competence of staff.**	
5.	**Understanding your financial needs.**	
6.	**The guidance and information they provide on products and services.**	
7.	**Treating all customers with respect.**	
8.	**The willingness of staff to show you how to use the ATM and other electronic banking facilities.**	
9.	**Treating you as if they know you.**	

SECTION D
PROBLEM RESOLUTION

1. Have you had any problems with your branch or the bank in the previous 3 months?

Yes	
No	

2. If Yes to the above question, did you report the matter?

Yes	
No	

If no, why not?

How long have the branch taken to come back to you with feedback?

Immediately	
One day	
Two to three days	
Four to seven days	
More than a week	

4. Was your problem resolved?

Yes	
No	

If no, why not?

5. Were you satisfied with the outcome?

Yes	
No	

If no, why not?

6. Could you gain access to a senior bank official when your problem could not be resolved?

Yes	
No	

If no, why not?

SECTION D
CUSTOMER RETENTION

1. **Have you ever considered moving your accounts to another financial Institution?**

Yes	
No	

2. **If Yes, why have you decided to remain with the bank.**