

**AN INVESTIGATION INTO THE PROVISION OF SERVICE  
EXCELLENCE IN A SELECTED BANK IN THE  
PORT ELIZABETH METROPOLE**

**BY**

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**Date: January 2000**

**DECLARATION**

“I, ***Marius Keet***, hereby declare that:

- the work in this paper is my own original work;
- all sources used or referred to have been documented and recognised; and
- this dissertation has not been previously submitted in full or partial fulfillment of the requirements for an equivalent or higher qualification at any other recognised educational institution.”

***MARIUS KEET***

***January 2000***

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**ABSTRACT**

In this research customer service excellence in First National Bank in the Port Elizabeth metropole was investigated. From the industry and competitor analysis it can be concluded that banking is a highly competitive industry that is undergoing constant change because of fierce competition. The literature survey was aimed at placing the concept of service quality, excellence and customer loyalty which lead to customer retention into perspective. The concept of total quality management outlining the specific requirements of how the concept can be utilised and how a service quality programme can be implemented was discussed.

The purpose of the empirical study was to test customers' perceptions of service provided by First National Bank and to contribute with useful information to the bank studied. From these findings improvements and recommendations were suggested as a guideline for any bank to follow to improve customer service levels. The empirical study results were satisfactory and informative. The meaningful **positive** responses that were identified can be utilised as competitive marketing strategies by FNB. The meaningful **negative** concerns the bank should consider improving upon and attention should be given to the **language** and **SBU** differences outlined.

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## CHAPTER ONE

### THE BACKGROUND AND METHODS OF THE STUDY

#### **1.1 Introduction**

South African banks of the late 1990s view themselves as retailers of financial services, yet their diverse products are mainly still dependent on direct customer interaction. Their products are not “off-the-shelf” products and need to be marketed and sold by skilled and qualified people. A bank’s main business therefore revolves around relationships with customers. The South African banking industry is highly competitive, especially since 1994 with the introduction of foreign competitors who operate at world class standards. Most banking products however are standardised. This makes it extremely difficult for one bank to differentiate itself from another. Arderne (1998:1) maintains that the only means of differentiation that can be utilised is striving for service excellence, which has become a “buzz” word implying that a high quality of exceptional ability is provided in terms of customer needs.

Banks are faced with various factors which may affect their survival and potential growth. These factors are economical stability, political stability, declining profits of organisations in general, technological advances and the demands of the banking industry. High customer expectations and intensifying

fierce competition are macro environment demands surrounding the financial service industry. These demands emphasise the need for high quality

performance and service excellence in all aspects of the banking industry. Research (Boshoff, 1990; Seaman, 1998; Arderne, 1998) has shown that satisfying customer needs, particularly in terms of service excellence (which include all aspects of quality performance) has been found lacking, despite the importance customers attach to quality service in their banking choice.

In this chapter the main problem of the research is analysed and divided into sub problems. Next, the key concepts, delimitation and the significance of the research are also discussed. The researcher reviews three previous studies in the field of the service industry and relates them to this research. The chapter concludes by outlining the structure for the remainder of the paper.

## **1.2 Main research problem and objective**

Peters and Waterman (1982:171) report that successful organisations they have studied are obsessed by service quality, which has become a critically important factor in the buying decision of the customer. Littler and Wilson (1995:373) maintain that banks spend millions on training their staff to be charming to customers: however, banks are still closed when the public need them open. According to Parasuraman, Zeithamal and Berry (1988) in Seaman

(1998:3) customers who continue doing business with a company because of the service they receive, will also spend on other products and services with the same company. These customers will become advertisers and marketers of such service received.

Payne (1995:230) confirms the above by emphasising the importance of focusing on the economy of retaining existing customers, rather than continually trying to attract new customers. There is a high correlation between customer retention and the profitability of an organisation. Banks therefore need to understand the importance of the following:

- What is customer service excellence?
- How can service excellence enhance customer retention and profitability?

This leads to the question that also represents the main problem of this study:

**What can a selected bank do to improve service provision to customers?**

This question will now be sub divided and analysed.

### **1.3 Sub research problems and objectives**

In order to develop a research strategy to deal with and solve the main question, the following sub questions have been identified:

- *What is an ideal model of service provision?*
- *How do customers perceive the quality of service they receive?*
- *What can banks do to improve the provision of excellent service?*

#### 1.4 Key concept definitions and explanations

For the purpose of this study, certain key concepts which, relate to the title, the main research question and the sub-questions, will be explained.

The first key concept is **service excellence**. The Oxford Dictionary (1982) defines terms related to service excellence as follows:

- **Excellence:** “thing in which person excels”; “be superior in quality, in doing”; “a very high quality of exceptional ability.”
- **Quality:** “degree of excellence”; “relative nature or kind of character”; “of a high standard or how good it is.”
- **Service:** “the activity of working for other people or for an organisation.”
- **Service industry:** “an industry that provides a service rather than making goods for sale.”

For the purpose of this study the researcher defines service excellence as: ***The activity of providing a high quality standard of exceptional ability, which meets and exceeds the needs and expectations of customers.***

Albracht (1994:33) defines service as “the distinctive formula, approach, or principle for delivering service quality, which is both important to the customer and deliverable”. Providing quality service can be achieved through careful management of strategies and systems as well as human resources. The

organisation needs to be service driven if it wants to achieve service excellence. It has to be structured so as to offer more value than its competitors, and so capture bigger markets. The ideal is to meet and even exceed the needs and expectations of both current and new customers. An organisation can provide better service by simply asking the customers what their needs are and then providing in the satisfaction thereof. Organisations need to design customer-

friendly systems that meet both customer and organisation's needs. The design of a service quality programme is discussed in chapter five.

Other important concepts are **customer, perceptions and expectations**. The Oxford Dictionary (1982) defines customer, perceptions and expectations as follows:

- **Customer:** "one who buys regularly from one seller or account holder of a bank"; "a particular kind of person that you have to deal with"; "people who purchase or utilise the services an organisation produces."
- **Perception:** "act or faculty of perceiving, intuitive recognition of truth, aesthetic quality"; "a particular way of looking at or interpreting something."
- **Expectation:** "awaiting, anticipation, probability of a thing happening"; "a firm belief that something will happen or a hope that something will happen."

For the purpose of this study the researcher defines a bank's customer perceptions and expectations as: ***A bank account holder's particular way of looking and interpreting service.***

Schoeman (1997:14) is of the opinion that a customer's perception of what service she/he gets and what the organisation thinks the customer is getting, can often be worlds apart. The following are expectations a customer perceives as being important (These will be dealt with in detail in chapter three):

- excellent service which is reflected in the speed with which a customer is served and how the customer's account is dealt with.
- service quality in terms of outstanding service and a quality product which satisfies customer's needs.
- effectiveness to deliver the goods, by the due date and to go out of the way to assist a customer.
- price which is reflected in the way in which money is utilised, rendering outstanding service at the lowest price.
- integrity to earn the customer's trust and never abuse it.

The last two key concepts are the **banking sector and industry**. The Oxford Dictionary (1982) defines the banking sector and industry as follows:

- **Bank:** "establishment for custody of money, which it pays out on a customer's order."
- **Banking:** "the business done by banks and bankers."
- **Sector:** "a part of an area into which any sphere of activity can be divided."

- **Industry:** “all businesses that produce goods or services of a particular kind.”

For the purpose of this study the researcher defines the banking sector and industry as: ***The business done by banks in an area that consists of retail financial services of a particular kind.***

According to Mayer (1997) banks operate as financial intermediators, standing between the primary lenders (depositors) and the ultimate borrowers. In this way, banks provide many services, such as:

- the pooling of risk. Banks make many loans, therefore they spread risk.
- providing liquidity. The customers can request their money at any time when required. Banks in the meanwhile, use these customer deposits to make other loans, keeping only small fractions of the deposits as liquid reserve to pay out withdrawal requests.
- judging who to lend to. Banks are experts in evaluating the credit standing of borrowers.
- providing electronic banking services. Computers have given access to automated teller machines, telephone banking and electronic internet banking.

Towards the end of 1990 banks began to strive to remove cash out of their systems. For banks to retain cash became prohibitively expensive because of the security controls needed to handle cash. Rogers (1998) maintains that early in the year 2000, the South African banking arena will have a completely

new face. This is due to dramatic changes initiated by the introduction of new, cashless, "smart card" technology. South African banks clearly see the potential of this advanced technology. All indications are that local activities in this arena will put South African banks in a leadership role and at the frontline of the international financial community. Smart card technology creates an advanced service delivery channel. Customers will therefore no longer need to carry cash around with them. Smart cards will even pay for a cup of coffee or a newspaper. The above is but one issue planned in the banking industry for the future. In chapter two a detailed study is made of the banking industry in South Africa towards the end of the 1990s.

### **1.5 Delimitation of the research**

The researcher's initial intention was to conduct comparative research on customer service excellence in four leading banks: Nedbank, ABSA, Standard Bank and First National Bank. Nedbank and Standard Bank declined co-operating without giving any reason. ABSA initially showed interest but later declined. The reason given was that during their recent amalgamation, their customers had been approached to rate their services, and they felt that another survey would not be well received. The research is therefore to be limited to First National Bank of Southern Africa Limited (a division of the Rand Merchant Bank), henceforth referred to as FNB.



- **Geographical demarcation:** FNB is a national company. However, for the purposes of this study, the empirical component will be limited to the branches of FNB within the geographic area of Port Elizabeth.
- **Focus of the empirical research:** The research will be limited to service excellence as perceived from a customer viewpoint. All other levels such as customer service as perceived by staff and in-house customer care programmes have been excluded. In contrast to in-depth quantitative studies (Boshoff, 1990; Seaman, 1998) which focused mainly on the SERVQUAL instrument and the five empirical factors (tangibles, reliability, responsiveness, assurance and empathy). This research focuses on an investigation aimed at exploring customer service perceptions of FNB.
- **Type of industry:** The research will be limited to retail banking and specifically to the branch network which is utilised on a day-to-day basis by a diverse customer base. All other banking levels such as international and corporate banking have been excluded.

## 1.6 Assumptions

According to Leedy (1997:60) assumptions when conducting research must be basic. Without key assumptions, the research problem or question could not exist. Assumptions are what the researcher takes for granted. However, these can lead to misunderstanding. Therefore the assumptions made by the researcher must prepare the reader to evaluate the conditions that result from such assumptions. In this study it has been assumed that:

- FNB's organisational structures will remain the same for the next year
- FNB's service levels will remain the same for the next year
- The macro environment surrounding FNB will not drastically affect customer service levels
- FNB will be able to apply the Port Elizabeth metropole research results to other major centres
- FNB will continue to support the researcher's study.

### **1.7 The significance of the research**

A number of realities necessitate research into service excellence in the banking industry. Banks serve a diverse customer base and are service orientated. There is therefore a demand for service excellence in banking. What interested the researcher and resulted in the investigation is that service excellence may really be the only factor that differentiates one bank from another. Boshoff (1990:364) for example, believes that "Banking competition will be won or lost through service" and Arderne (1998:65) feels that since banking products are all quite standard and highly competitive: "Service has become the only differentiator in the banking sector."

Martin (1993:9) states that 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 organisation. Sviokla and Shapiro (1993:16) maintain that

customers are new only once: “yesterday’s service is today’s minimum standard and tomorrow’s disappointment.” Those who wait for customers to define the standard could be forced into a defensive position.

Organisations need to continuously research customer service levels. The macro and micro environments surrounding banks change daily. Competition is fierce; research such as this can benefit banks such as FNB, as the results can assist in designing models for training and implementation to improve quality of service. This empirical study will therefore focus on customer service excellence in FNB as perceived by its customers.

## **1.8 Research methodology**

The researcher conducted a literature survey using various libraries and the Internet, to place the concept of service quality and excellence into perspective. From the books, journals and articles studied the theoretical framework for this research was developed. In item 6.3 the research methodology is discussed in more detail.

## **1.9 An overview of prior research**

The literature survey will examine three studies dealing with service excellence: the first by Arderne (1998), the second by Seaman (1998) and the third by Boshoff (1990).

1.9.1 **Study by Arderne (1998): A competitor and industry analysis of the financial service industry**

- **Purpose of the study:** The purpose of the study was to identify underlying factors that influence the service encounter process between frontline staff in the banking industry and its customers. The aim was to establish how customers perceive the service.
- **Empirical research focus:** According to Arderne (1998:45) a quantitative research design was used due to time and cost constraints.
- **Data collection method:** Two questionnaires were used, one for the front line staff and one for the customers. Eighty five customers approached randomly responded to the customer questionnaire. All fifteen staff members completed the staff questionnaire. The response sample was therefore not clearly defined. (Arderne, 1998:48)
- **Research limitations:** The research was confined to one particular branch. The results could therefore not be generalised to other branches and hence the research has low external validity.
- **Major results of the study:** Arderne (1998:59) states that employees view their performances more highly than customers do in respect of empathy, individual attention, friendliness, response, competence, and adequacy of frontline staff numbers.
- **Recommendations:** Arderne (1998:62) believes that it is important that managers realise the importance of frontline employees to provide quality

service to customers. Frontline employees require the tools, training and back office support to provide quality service. Staff need to know clearly what the organisation's objectives are with regard to the customer. The study did not recommend areas for further research.

**1.9.2 Study by Seaman (1998): The impact of service quality, customer retention, employee retention on market share and profitability of a financial institution**

Where Arderne (1998) studied one bank and one branch only, Seaman (1998) studied customer service in one entire bank at national level.

- **Purpose of the study:** Seaman (1998:9-10) outlined the following objectives of the research:
  - to identify factors which determine customer retention
  - to identify factors which determine employee retention
  - to determine the impact of service quality if brought into perspective with customer retention, employee retention, market share, and profitability for a specific bank
  - to make recommendations about upholding service quality and customer and employee retention models.
  
- **Research methodology and data collection methods:** Seaman's (1998:11-14) study included a literature search and an empirical investigation. The literature search focused on factors that influence the

loyalty of customers and those that influence customer and employee turnover. The SERVQUAL instrument was utilised in the empirical study. Two questionnaires were administered. The first was mailed to 23 600 customers (118 branches and 200 questionnaires per branch). The response rate over a six month period was 2 934 questionnaires, in other words, 12,43%. A second questionnaire with a focus on worker satisfaction was distributed to all frontline staff of the 118 branches. The response rate over a three-month period was 334 questionnaires, in other words, 28,67%.

- **Empirical results and recommendations:** Eight main concerns relating to service factors were identified by Seaman (1998:290-291):
  - price: customers view service charges as excessive
  - inconvenience: branches and ATM's (automatic teller machines) are not always conveniently located. Furthermore, 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 care attitude, 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' services are better
- ethical concerns: security is lacking at ATMs, and in banking halls, which are found to be overcrowded. Customers' accounts are moved to other branches without their permission.
- **Areas for further research:** The following are the main areas recommended for further research by Seaman (1998:293-294):
  - to measure service quality and profitability relationships in all the banks in South Africa
  - to investigate the relationship between service quality and customer retention
  - to investigate the relationship between customer retention and employee retention
  - to investigate the influence internal marketing has on service quality and customer satisfaction as this is important for relationship marketing strategies.

### **1.9.3 Study by Boshoff (1990): Perception of service quality in three service industries**

Where Arderne (1998) concentrated on one bank, one branch, and Seaman (1998) on one entire bank, Boshoff (1990) decided upon a study of three

different service industries namely banking, motor vehicle repair and insurance brokerage service.

- **Purpose of the study:** Boshoff (1990:9-10) outlined the objective of his study as being to assess the level of service quality offered in the three selected service industries. More specifically the study focuses on:
  - perceived service quality
  - differences in service quality
  - all categories of service quality influenced by group membership
  - dimensions which influence consumer quality evaluations
  - the influence of certain demographic variables on service quality.
  
- **Conceptualising service quality:** Service quality is influenced during the interaction between the service producer and customer. The macro economic developments, such as increased competition and changing consumer needs, has resulted in quality becoming a particular concern in organisations. Quality has been proven to be a difficult concept to define, describe and rate (Boshoff, 1990:209)
  
- **Research methodology and data collection method:** The study employed a mail survey by means of questionnaires. In total, 459 useable questionnaires were returned with response rates of 27,7% for banking, 21,7% for motor repair services and 21,1% for insurance brokerage services (Boshoff,1990:12).



- **Focus of empirical research results:** The SERVQUAL instrument was employed by Boshoff (1990:14 and 354) to measure perceived service quality in the three selected service industries. This resulted in a quantitative, statistical assessment on the quality of service. The instrument took the form of a questionnaire that measured expectations of consumers with regard to services in a specified service industry. Respondents were also requested to evaluate the actual service they received. In the banking industry, three dimensions proved to be measures of perceived quality, namely: tangibles, assurance / reliability and empathy. From the SERVQUAL score it can be deduced that out of the three service industries studied, the quality of service is the best in the insurance brokerage industry, followed by the banking industry and then the motor repair service industry.
- **Recommendations:** The most important finding of Boshoff's (1990:361) study is that companies in the three selected service industries do not succeed in satisfying market requirements. Service organisations need to focus on:
  - assurance: trustworthiness of employees, customer safety during transactions, courtesy of the staff
  - reliability: service performance, sympathy towards customer problems and trust in the firm's record-keeping
  - training of service personnel: skills that appear to be lacking are technical, communication and marketing skills

- customer guarantee: that the risk of possible poor service quality is carried by the organisation
  - customer perceptions: must be measured periodically so that marketing strategies can be adjusted.
  
- **Areas for further research:** Boshoff (1990:363) recommended the following areas for further research:
  - to measure service quality in a broader spectrum of service industries
  - to research where personal interaction is not essential to service delivery, for example, public transport
  - to research where human interaction is critical, for example; medical services
  - to compare service quality in a state controlled firm to that of the private sector, for example the post office compared to private couriers
  - to establish how service quality is perceived by non-Europeans.

## 1.10 The scope and structure of the study

The remainder of this research is structured as follows:

- **Chapter Two: The banking industry in South Africa**

This chapter deals with banking in the retail context, outlining the industry's importance and its role in the economy. Banking has changed dramatically towards the end of 1990. The aim of this section is to set the scene for the

research. A theoretical explanation, outlining the competitive forces in the banking industry, has been included to highlight the intense competition in

the industry. The chapter concludes by showing that banks can differentiate themselves from their competitors by providing service excellence.

- **Chapter Three: Customer service quality and excellence**

The research examines who the customer is, and what a customer needs and expects. The banks that excel in service quality are those which take care of their customers by setting high standards and meeting these standards. The steps towards providing excellent customer service form an important part of this section.

- **Chapter Four: Customer loyalty and retention through service excellence**

The importance of customer loyalty which lead to customer retention is discussed. It will be shown how customer retention is obtained through customers' satisfaction, which becomes the core to long term profitability. The more satisfied the customer, the more durable the customer / organisation relationship. The relationship will last longer and more profits can be generated from the customer.

- **Chapter Five: Implementing total quality management and a service quality programme**

The literature survey aimed at placing the concept of service quality and excellence into perspective is concluded by this chapter. The concept Total Quality Management (TQM), which itself has become a topic of research, is

briefly discussed. The aim is to outline the specific requirements of TQM and how it becomes the fundamental base of implementing a service quality programme.

- **Chapter Six: The empirical study**

A researcher has to choose among various approaches when conducting the empirical study. In this chapter the research methodology namely a qualitative investigation is explained. A brief, theoretical explanation has been included to justify the methodology, the research design and questionnaire use.

- **Chapter Seven: The analysis and interpretation of the empirical study**

In this chapter the results of the empirical study are presented and interpreted in order to draw conclusions in terms of the theoretical paradigm set out in chapters two, three, four and five.

- **Chapter Eight: Summary and recommendations**

The aim of this research paper is to evaluate customer service excellence in the banking industry. The final chapter includes a brief summary of the investigation and makes recommendations for areas of further research.

## CHAPTER TWO

### **THE BANKING INDUSTRY IN SOUTH AFRICA**

#### **2.1 Introduction**

It is important to understand the background from which banks evolved, in order to fully appreciate the transformation in banking over the years and the impact competitive forces have had on the industry. Competition in the banking industry is intense: to remain competitive banks need to strive to provide the kind of superior customer service that distinguishes them from other business and from one another. The aim of this chapter is to give a brief overview of the South African banking industry, to outline the role of the industry in the economy and to indicate how banking is viewed in the late 1990s.

#### **2.2 An overview of South African banking**

For centuries banking, commerce and industry have gone hand in hand (Banking Council, 1997:3). Without commerce the manufacturers would be unable to sell their goods and no motivation would exist to produce. Without banks, there would be neither capital to establish businesses and industries, nor the means to handle transactions. This is where the banking industry has always fitted into the economy. In the last decade financial deregulation and economic reform eased exchange control, credit and interest-rate management, making it easier to gain a banking licence (Amos, 1997:9). This resulted in

building societies transforming into banks, banks and retailers transforming into insurance companies. Furthermore retailers expanded their product ranges to include numerous financial services. This is the current environment in which South African banks find themselves.

The Banking Council (1997:27) confirms the above by stating that more and more of the business traditionally done by banks towards the end of the 1990's is done by other types of institutions, for example, vehicles and furniture are being financed by companies within those industries. Furthermore retailers have begun providing facilities to do banking in alliance with banks and informal lenders are providing banking-type services to the lower end of the market. Banks on the other hand, are diversifying into the insurance investment market. The themes running through the South African banking industry toward the end of 1990s (Amos, 1997:3) are change, shifting market priorities, lowered costs, the use of more effective technology and the creation of products and services more suited to customer needs. A central threat would be global competition, as foreign banks are increasing their representation in the South African market. Competition for corporate business has never been more intense, placing pressure on lending rates and the banking industry as a whole.

South African banks find themselves caught in the middle of two contradictory forces (Banking Council, 1997:3). Firstly, due to the institutional capacity

available in major banking networks, and government which, has placed pressure on banks to make major contributions to reconstruction and

development programmes (henceforth referred to as RDP). Banks realise that without investment, living standards will deteriorate even more and communities will continue to live in poverty. Banks therefore need to determine the roles they should play, for example, in financing: low-income housing, small enterprises, and lending to various levels of government.

Secondly, the banking industry is responsible to all South African depositors and needs to maintain global standards and match levels of competition. Major banking networks find it expensive to run distribution networks and large staff compliments. This is because banks do not recover the real costs of moving and handling cash, which directly results in high cost ratios. In comparison to the major banks, niche banks (fully defined in item 2.6.1.3) do not have large networks and staff compliments, and therefore have lower overheads. They do not attract political demands to contribute to the RDP. The challenge to the larger banks is to provide financial services to the full spectrum of South African clientele, or be faced by small niche banks employing specialised techniques to service different market segments which will increasingly take over different parts of the client base (Amos, 1997:3). The highly competitive niche-banking environment produces quality service and reduced prices and interest rates in high value personal and corporate markets.



### 2.3 The role of the banking industry in the economy

Now that the environment in which South African banks evolve has been discussed, it becomes important to understand the influence the banking industry has on the economy. According to the Banking Council (1998:8) the South African banking industry consists of:

- four major banking groups: First National Bank, ABSA, Standard Bank and Nedcor, each with national asset distribution networks in excess of R100 billion
- two medium sized banks each with national asset distribution networks in excess of R45 billion
- ten small banks each with assets of less than R12 billion
- ten micro banks each with assets of less than R1 billion
- four mutual banks
- ten foreign controlled banks
- twelve branches of foreign banks
- fifty-nine registered representative offices of foreign banks.

A competitive, robust banking sector is an indicator of a healthy economy (Banking Council, 1997:3). Banks perform three functions in an economy:

- banks are the repositories of South Africans' short-term savings
- banks convert short-term savings into short and long term loans on which individuals and businesses depend

- banks handle bulk domestic and international monetary transactions.

The banking industry plays the following “role” in the South African economy (Banking Council, 1997:6-7; 1998:8-9):

- **Commercial banks:** Commercial banks or clearing banks are involved with almost all monetary transactions that occur in South Africa. These transactions range from cheque processing and the provision of cash, to electronic transmissions. The South African banking distribution network consists of branches, service centres and agencies totalling 4038 and includes automatic teller machines (henceforth referred to as ATM's) totalling 7383.
- **Foreign banks:** Foreign banks concentrate on international trade, corporate financing and, banking which are estimated to hold 5,4% (R35,4 billion) of the total assets of all banks doing business in South Africa. It is predicted that this figure will expand over the next few years.
- **Banking service for low-income earners:** South African banks have made investments in technological infrastructure to extend banking services to low income earners nation-wide. South African banks are regarded globally as market leaders in providing banking services to low-income communities.
- **Black empowerment transactions:** The banking industry has played a key role in black empowerment transactions (The total value for 1997 reached R8,2 billion).

- **International business:** The South African banking industry ranked twelfth out of 53 nations in the 1997 world competitiveness report. The basis of measurement was “health and soundness of balance sheets.” This high rating is important for international trade which is responsible for importing and exporting approximately R300 billion worth of goods and services per annum. Trade is highly significant for maintaining the international standing of the South African banks.
- **Compliance with International Standards:** South Africa depends on its capacity to borrow internationally. South Africans do not save enough to finance all capital projects required to create employment and engage in the reconstruction and development of the country. South African banks have managed to maintain their credit worthiness internationally, which greatly contributed to the development of the county.

The South Africa's financial market is open, flexible and well supervised and as a result one of the country's strongest assets (Banking Council, 1997:6). In emerging economies there is great pressure on banks to support governmental development initiatives. However, there needs to be a balance between the need to comply with international standards and the role which the banking industry and other financial institutions should play in reconstruction and development. The financial costs should not be borne by large banks alone. The role which financial institutions play should be determined through the extent to which they are holders of the nation's savings and not because they have huge branch networks.

A recent report by the International Monetary Fund (IMF) (Banking Council, 1998:6) confirmed the following: “Overall, the South African banking system was found to be generally sound - in sharp contrast to some banks in East Asia, whose flaws played a major role in triggering the 1997/98 global crises. South African banks are well-capitalised, well-run and organised and in general have sophisticated risk management systems and corporate governance systems in place.”

#### **2.4 Banking in the late 1990s**

The Banking Council (1998:5-6) is of the opinion that the emerging market turmoil during 1998 highlighted the importance of banks and their vulnerability to events in other countries. The upheaval affected the banking industry worldwide, causing some banks to suffer huge losses and others to collapse. The volume of bank mergers, acquisitions, competition and technology led to the restructuring of banks around the globe. South African banks were placed under immense pressure. Sound banking practice prevented the kind of bank failure that occurred elsewhere globally. The financial market instability began in July 1998, when Thailand was forced to devalue the “baht”. It spread rapidly to other Asian countries and created difficulties for most developing nations in 1998. Excessive credit growth and expansion of capital stock, inadequately supervised banks, inflated asset prices, and rigid exchange rates affected the Asian countries.

The turbulence resulted in a string of currency devaluations, and these, together with concerns about Japan and Russia, led investors to reassess the risk, per country, of investing in emerging-market economies. The outflow of short-term capital from South Africa, which began mid-1998, caused a liquidity crisis for domestic banks. The supply of loanable funds available in South Africa was reduced substantially. Banks had to make up for money-market shortages by borrowing from the Reserve Bank at high interest rates under the new repurchase (repo) system (refer to item 2.6.2.1). This pushed the repo and wholesale interest rates upwards. Uncertainty prevailed as the banks were forced to adapt rapidly to the changing conditions.

Notwithstanding the most analysts had predicted a higher economic growth in South Africa the macro-economic outlook worsened. The rapid turnaround revealed to many South Africans that they were living beyond their means, borrowing too much and saving too little. The increase in interest rates caused great difficulties for all households with large debts and resulted in an economic slowdown in the latter half of 1998. It is apparent from the above events that interest rates are determined by market forces and not by banks.

#### **2.4.1 Mergers in the banking industry**

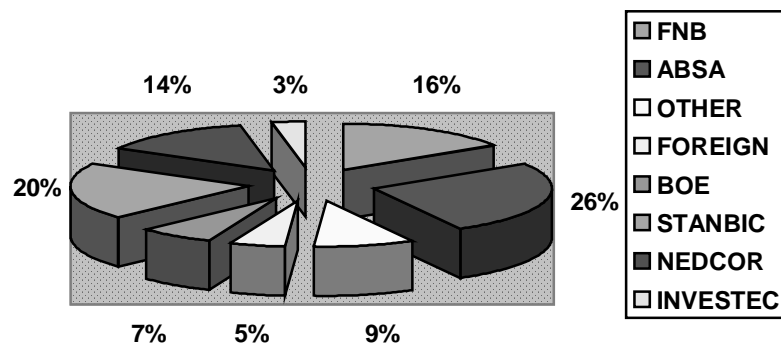
During 1998 the Banking Council (1998:3) advised that changes had occurred in the South African banking industry. For example, as competition intensified, some banks merged their interests with insurance companies to form

“bancassurance” groups to compete strongly. The reasons given for these mergers included:

- the benefit of size competing on a global scale
- the need to increase spending on information technology
- the need for strategies to reduce costs through economies of scale
- an attempt to reduce costs by combining organisations in the domestic market
- the need to extend the provision of banking services
- the advantages of having banking and other financial services combined.

Retail banks adopted divergent strategies regarding their branch activities. For example, one bank reduced its participation in the low-value markets while another opened more than two million new accounts over a period of three years. Figure 2.1 indicates the market share of South African banks.

**Figure 2.1 The market share of South African banks 1998**



**Source: Adapted from The Banking Council (1998:6)**

## 2.5 Transformation within the banking industry

According to Stals (1998:1) the political reforms in South Africa towards the end of the nineties opened up the way for major changes in the South African financial sector. With the removal of sanctions, boycotts, disinvestment campaigns and the withdrawal of foreign loan funds from South Africa, the challenge was extended to reintroduce South African financial markets in the world environment. This reintegration took place at a time when the international markets also changed dramatically and when the trend towards financial globalisation gained momentum. The Banking Council (1997:15) is of the opinion that banks play a major role in transformation.

A growing, vibrant and normalised economy will clearly be of benefit to banks and to the whole of South Africa. The issue for the banking industry is therefore not whether a role in reconstruction and development is necessary, but how the role should be played. Huyssteen (1999:13) remarks that the face of banking has changed dramatically in the last few years, with banks having to offer more services, having to keep pace with technological advances and having to become more customer-driven with a focused customer approach. Consequently banks are marketing themselves more extensively than ever before.

The transformation of the industry which is a continuous process in order to stay competitive, is influenced by two factors:

- The traditional banking industry has over the last few years faced increasing competition ranging from foreign competitors to non-traditional financial sectors. For example, retail stores towards the end of the 1990s are involving themselves in banking.
- The banking sector has become more sophisticated with the advent of Internet banking, electronic banking and telephonic banking. These technological advances have placed severe pressure on banks to keep pace with the increasing sophistication of their customer markets. The Banking Council (1997:21) is of the opinion that service standards in the banking industry are declining, due to pressure to contain costs and to provide various services for different market segments. This results in customer dissatisfaction. Problems are further aggravated by upward pressure of interest rates and service fees in order for banks to be able to accurately reflect the real costs in providing services.

## **2.6 Competitive issues in the banking industry**

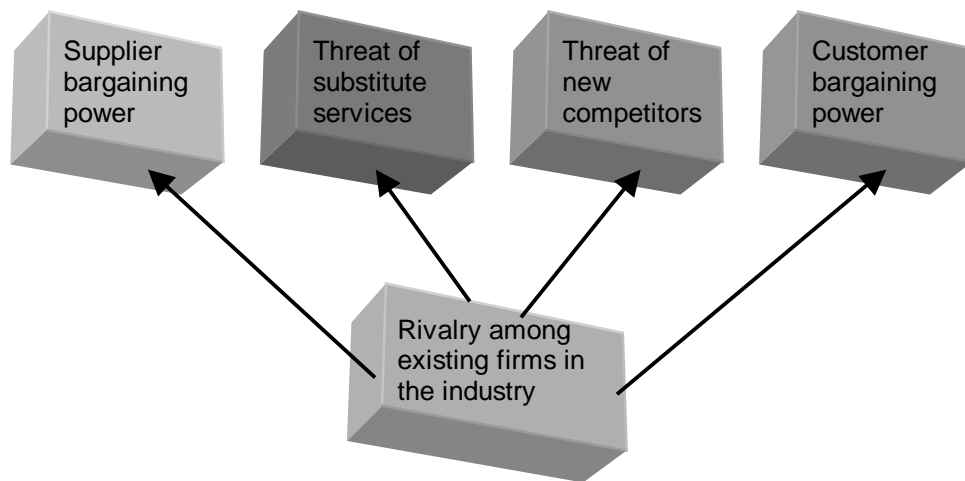
Various competitive forces (refer to Figure 2.2) directly influence organisations in an industry (Hellriegel & Slocum, 1996:90). The combined strength of these forces affects long term profitability. Competition in the banking industry is severe. It is therefore important to analyse the various competitive forces in relation to the banking industry. The researcher is of the



opinion that these competitive forces will determine the impact on customer service. Superior service has become an important differentiating factor.

Michael Porter's five-force model as outlined in Figure 2.2 will be applied as an analytical framework to determine the intensity of competitive forces in the banking industry.

**Figure 2.2 The competitive forces in an industry**



**Source: Adapted from Hellriegel & Slocum (1996:90)**

### 2.6.1 Rivalry among existing firms in the industry

The first competitive force (refer to Figure 2.2) is rivalry among existing firms in the industry who maintains that aside from customers, competitors are the single most important day-to-day force facing organisations. Rivalry among

competitors produces strategies such as price-cutting, advertising, promotions, enhanced customer service or warranties, and improvements in product and/or service quality. Competitors use these strategies to try to improve their relative positions in an industry, or to respond to actions by their competitors. It is common, especially in the banking industry, that when one bank cuts prices, other banks in the industry often follow shortly afterwards. The banks may all end up worse-off in the short term because losses may result. However, in the long term through price-cutting they may increase the demand for their products and leave the industry better off as a whole (Hellriegel & Slocum, 1996:90).

The Banking Council (1997:3) is of the opinion that banks face the task of playing a constructive role in the process of reconstruction and development in South Africa whilst remaining competitive both locally and internationally. While the competition faced by the major banks undoubtedly benefits high value and corporate clients resulting in improved services, reduced prices and lower interest rates, it has an adverse effect on the provision of banking services for the masses. At best, low-income customers are served at “break-even” level

and the pressure is therefore either to reduce services or to increase prices in that market, which can lead to rivalry among banks.

#### **2.6.1.1 Foreign competitors**

South Africa's reintegration into the global financial market has had various implications for the local banking sector. More than 70 foreign banks have

established themselves in South Africa towards the end of the 1990s. The government's official policy was to open up the South African banking sector for foreign participation and to expose South African banking institutions to the globe. The result of this policy was outlined in item 2.3. Foreign banks have grown with an estimated hold of 5,4% (R35,4 billion) of the total assets of all banks in South Africa (Banking Council, 1998:9).

The additional competition created by the entry of the foreign banks has provided banking customers with greater options. It has spurred all the banks to improve cost efficiencies and develop new products. It has also compelled them to stop cross subsidising less profitable businesses. Arderne (1998:7) remarks that key segments of the banking business have become vulnerable to competition from international banks. Foreign banks have been fairly successful in the more lucrative segments of corporate financing and international trade, but have not yet posed a seriously competitive threat in the banking retail sector.

The South African corporate that wishes to expand its business globally has been the foreign bank's prime target. Foreign banks, using their large capital bases to offer lower prices and selling their global networks have managed to snatch huge amounts of the middle sized and top one hundred South African businesses from the bigger local banks. The foreign banks can offer global service far quicker and cheaper than South African major banks because of their established networks worldwide.

Foreign banks who are experience in numerous countries only require a small infrastructure in South Africa. This obviously reduces costs. The high cost of setting up retail banking infrastructure has kept foreign banks focussed on strategies to obtain the business of South Africa's top one hundred companies business rather than the top one hundred individual earners. Local banks are aware of this threat and are putting aggressive strategies in place to secure the top end of the retail market.

These local banks are also exploring other opportunities, such as:

- **Getting the cost-to-income ratio right:** According to the Banking Council (1997:23) the most critical issue facing the South African banking industry is that of getting the cost-to-income ratio right. Competitive foreign banks operate at cost ratios below 60%, while the lowest cost ratio of the major South African banks is 58%, most of the other local banks are operating at ratios of up to 70%. Banks with high cost ratios are vulnerable to

competition. The cost ratio can be reduced either by cutting costs or by increasing revenues, or both. There are various strategies for cutting costs. Some of these include reducing staff and the number of branch outlets, and rapidly increasing the use of electronics.

On the other hand, attempting to increase revenue merely by increasing prices is not a viable alternative due to competition from some of the smaller niche banks, which are able to offer lower prices or improved services because of their lower cost ratios. Banks are being compelled by market

forces to establish accurately the real costs of the different services they provide. The problem is that if their cost calculations for a given service are too low and the users of the under-priced service are cross subsidised by the users of over-priced services, they will tend to lose the users of the over-priced services. Costing errors are serious when they lead to the loss of high-value customers.

- **Exploring cross-border and global opportunities:** The strong inward focus of the South African banking sector following deregulation and the entry of foreign competitors has meant that global opportunities elsewhere need to be explored (Amos, 1997:6). Political strife in some African countries to the north of South Africa has been a strong disincentive to invest. However, despite all this, some South African banks have commenced exploiting cross-border opportunities.

Various South African banks have expanded their representation in countries in southern and central Africa. These banks mainly focus on structured trade finance and projects for other governments and organisations in the emerging markets, which could offer potential for South African organisations. These African markets are believed to be extremely challenging and to be successful, these organisations need to overcome language and cultural barriers.

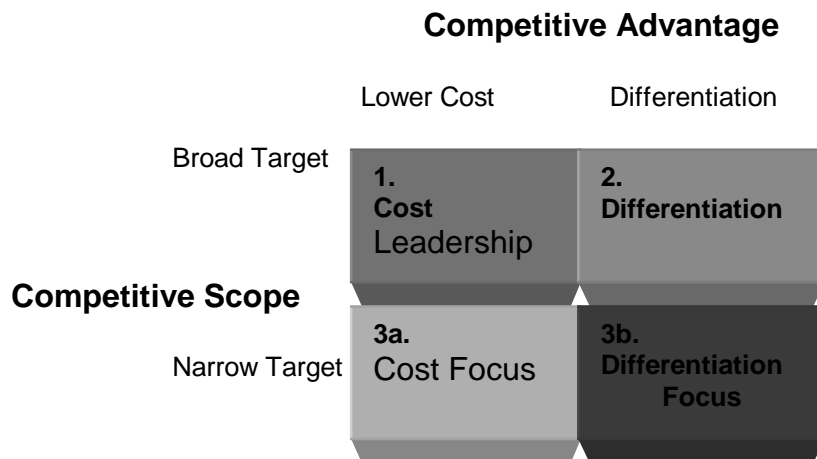
The need for banking services for South African companies globally has encouraged local banking institutions to adopt a global stance either directly, or through forming alliances with various international businesses. As South African businesses expand globally, their banks need to as well. This requires local banks to create global capabilities (Amos, 1997:12).

#### **2.6.1.2      Local competitors**

Arderne (1998:8) remarks that local competition especially between the four major banks is intense. For example, when one bank reduces its prime lending rate, the other banks retaliate and follow suit almost immediately afterwards. This implies that banks continuously try to become cost leaders by consistently being the first to offer the best prices.

Rocher (1999:33) is of the opinion that retail banking is highly competitive locally in South Africa with the various banks constantly striving to outdo their competitors and seeking competitive advantage. Each bank has established a specific corporate identity, in trying to be different from its competitors. Pricing *per se* has not generally been a strategy to gain competitive advantage but rather following a differentiation strategy with a desire to keep costs as low as possible, (refer to Figure 2.3 on the following page):

**Figure 2.3 Porter's generic strategies**



**Source: Adapted from Porter (1985:12)**

Michael Porter's generic strategies above, which have become widely accepted, imply that there are three types of generic strategies which enable organisations to achieve above average performance in an industry: cost leadership,

differentiation, and either cost, or differentiation focus (Porter, 1985:11). These will now be discussed:

- **Cost leadership:** (broad target / lower cost) Organisations need to work hard to achieve the lowest cost of goods and/or services and distribution so that prices can be set lower than competitor's in order to win a large market share.
- **Differentiation:** (broad target / differentiation) Organisations concentrate on creating a highly different product line and marketing program so that class leadership is obtained in the industry. Most customers would prefer doing business with such an organisation, provided prices are not too high and service is above competitive standards.
- **Cost of differentiation focus:** (narrow target) The organisation focuses its efforts on serving a few "niche" market segments well, rather than "going" for the whole market, either by lowering costs or by differentiation.

The researcher is of opinion that the major South African banks tend to strive to apply all three types of generic strategies to attempt to improve on their customer services.

### 2.6.1.3 Niche players

A market nicher can be defined as a "firm in an industry that serves smaller segments that competitors are likely to overlook or ignore" (Kotler & Armstrong,



1996:605). All industries include firms that specialise in serving market niches or segments, instead of pushing whole markets or large segments. Niches are often smaller firms with limited resources.

The main reason niche players are profitable is because they end up knowing and understanding the targeted customers better than their competitors do. As a result the niche can charge a substantial mark-up over costs because of added value. The mass marketer achieves high volume, the niche achieves high margins. The key idea in nichemanship is specialisation among any of several markets which include customers, products or marketing mix lines.

Niching carries some major risks: for example, the market niche may dry up or it might grow to the point where it attracts larger competitors. That is why companies, including banks, practise multiple niching, by developing two or more niches and so increase chances of survival.

Arderne (1998:8) maintains that niche banks have the following advantages over the mass retailer banks:

- depth of technical expertise
- sound reputations
- delivery of high quality service
- expensive huge branch networks are not required
- reduction of staff costs due to small niche outlets
- outdated computer systems can quickly be updated at lower costs.

Niche banks compared to mass retailer banks target high-income earners, offering advice and personal services at better prices. They maintain higher margins through “cherry picking” (selected and high networth) customers so that they do not have to cross-subsidise unprofitable customers.

## **2.6.2 Supplier bargaining power**

The second competitive force (refer to Figure 2.2) is supplier bargaining power. This force controls how much the supplier can raise prices above cost or reduces the quality of goods and services an organisation provide. (Hellriegel &

Slocum, 1996:94). The Reserve Bank can be seen as the supplier for the banking industry. The Reserve Bank sets monetary policy, and although independent, works in union with the Government.

In the past the Reserve Bank always took the lead by announcing the bank rate for which it lends out money on an overnight basis (Arderne, 1998:4). Banks would respond accordingly by raising or reducing their bank rates to their customers, proportionally. A bank rate is normally prompted by liquidity conditions in the money market as well as by other economic pressures such as inflation and foreign exchange reserve.

### **2.6.2.1 The Reserve Bank’s role in the banking industry**

It is important to understand the role and impact the Reserve Bank has on the banking industry (Banking Council, 1997:9). Historically banks “balanced their books” everyday by borrowing from the Reserve Bank at the set bank rate. Borrowing at the end of 1997 was substantial in excess of ten billion and had a major impact on the general level of interest rates throughout the economy. Short-term interest rates did not respond satisfactorily to changes in the overall liquidity position of banks as banks, had easy access to the Reserve Bank at the fixed bank rate.

The Reserve Bank planned to implement a new procedure in early 1998 to coincide with the introduction of real time and multiple option settlement procedures (Banking Council, 1997:9). The main reason for the new plan was to achieve greater flexibility in short-term interest rates. The full and automatic accommodation of the daily money shortage would be replaced with a system of active management of money market liquidity by means of “re-purchase transactions” between the Reserve Bank and the banks.

Instead of borrowing from the Reserve Bank, the banks would, tender to buy securities from, or sell securities to the Reserve Bank, Government, and the Land Bank on a daily basis. Securities bought or sold in this way could be re-purchased or re-sold after seven days. It was for this reason that the system could be referred to as the “repo-system”. The Reserve Bank would extend its credit by buying securities from the banks, and would withdraw liquidity by

selling securities to the banks. An overnight loan or marginal lending facility would still be available to the banks at a penal rate, but only for the purpose of meeting unforeseen shortages arising out of the daily settlement procedures.

The new procedure explained above was introduced on 9 March 1998 as a new national payment processing infrastructure to be known as the South African Multiple Option Settlement (SAMOS). It was developed as a collaborative venture between the Reserve Bank and private banking institutions and technology suppliers. The system ushered in a new era in electronic payment and settlement in South Africa and could have a major impact on the future development of the national payment system (Stals, 1998:5).

### **2.6.3 Threat of new entrants / competitors**

The third competitive force (refer to Figure 2.2) is the threat of new entrants to an industry and depends on the relative ease with which new entrants can compete with established organisations in an industry. The lower the barriers of entry the higher the possibility of new entrants (Hellriegel & Slocum, 1996:91).

The following barriers to entry need to be analysed:

- **Economies of scale:** This means the decrease in per unit costs as the volume of goods and or services produced increases. The researcher is of

the opinion that economies of scale in the banking industry are not substantial, due to the huge variety of products banks are expected to offer.

- **Product differentiation:** This refers to uniqueness in quality, price design, brand image or customer service that gives a product an edge over its competitors. Banks, as previously discussed (refer to Figure 2.3), attempt to follow a differentiation strategy. Fierce competition regarding product differentiation prevails in the banking industry.
- **Government or industry regulations:** This barrier severely restricts potential new entrants to an industry. South African banking regulations prohibit foreign banks from taking deposits of less than one million Rand from private individuals, which effectively precludes foreign banks engaging in the South African retail banking market (Banking Council, 1997:6).
- **Capital requirements:** Banks need to finance equipment, goods, services, research and development. The capital requirements for starting a bank are enormous: therefore retailers, the biggest threat to new entrants into the banking industry, are forming alliances with banks to eliminate costs.

#### **2.6.3.1 Retailers as new market entrants**

Arderne (1998:10) believes that a banking system must be customer focused to such extent that it facilitates and benefits the end user. Banks in South Africa are costly, offer inconvenient banking hours and their services are designed around the bank's rather than around the customers' needs. Retailers of

manufactured goods by comparison offer the same, as expected from banks regarding trust, service and accessibility. Technology allows these retailers to track purchase information, which reflects a customer's life style. The customers' life style is a better predictor of financial decisions than income information which are used by banks.

Purchase information provides a competitive advantage to retailers of manufactured goods, over banks and insurance companies, as they have on-line, real time information regarding possible financial decisions a customer might make. These retailers realise that they are, however, not banks and therefore form alliances with banks. Banks feel that the key lies in controlling their own distribution channels: however, banks fail badly as they cannot be good at everything. Poor distribution and service by banks create gaps that competitors exploit. Most banks own their distribution channels which consist of branches and ATM networks.

These distribution channels provide banks with a competitive edge only until such time as competitors can develop the same more efficiently and at lower cost. Retailers of manufactured goods need to stay customer focussed at all times due to fluctuating demands and needs. Customers cannot change banks with ease and therefore banks tend to neglect on customer focus. Bank's products and services are designed, to work more for the banks rather than the customer. Retailers of manufactured goods foresee that customers themselves will design financial products and services in the future. These retailers will be

more successful customers are starting to lose faith in the big banks (Arderne, 1998:12).

Retailers of manufactured goods already have distribution networks and a customer base: therefore, costs of rendering banking services are reduced. Banks are seen to be providing poor services, paying out low interest on savings and charging high service fees on debts. An example of such retailer who entered banking is Pick-'n-Pay who now offers a financial service cash account aimed to supply convenient, quality, value for money products cost effectively. Pick-'n-Pay's focused market is its existing clientele.

The advantages of Pick-'n-Pay's cash account in comparison to banks are:

- higher interest is being paid on savings
- service charges are low due to the fact that existing infrastructures are utilised to reduce costs
- customers can make purchases with their "cash cards" without using cash or needing to use expensive cheques
- there are no initial entry charges and service charges are low
- the minimum balance is R10 compared with that of banks who insist upon minimum balances of between R200 to R250
- there are no monthly service fees which could be as much R95, per month at banks.

The researcher views the above as a threat to the retail banking industry, as other retailers and wholesalers are bound to follow Pick-'n-Pay's example in trying to secure some of the market segment in this competitive banking industry.

### **2.6.3.2 The foreign banks and other industries as new market entrants**

Under item 2.6.1.1 the impact of foreign competitors who can no longer be regarded as *new* entrants into the South African banking industry was discussed. The new entrant threat, however, remains with the increasing *number* of foreign banks that continues to enter the South African banking industry annually. The South African banking retail sector has not yet been seriously threatened by these foreign entrants due to industry regulations. However, the more lucrative corporate financing and international trade segments are facing huge threats.

Huysteen (April, 1999:16) confirms the above, stating that huge numbers of foreign banks have entered the South African market towards the end of 1990s. However none provide personal retail banking services due to the cost of implementation. The market is tough, as it greatly depends on customer service. To illustrate how difficult it is to enter the retail banking sector cognisance must be taken of the fact that in Australia there is only one foreign bank in the retail banking market that has been successful. This is reassuring to



South African banks but foreign retail banks could become a potential future threat.

Other threats of new entrants into the banking industry are:

- furniture and vehicle manufacturers offering competitive hire–purchase deals
- informal lenders and deposit taking services offering banking facilities to the lower ends of the market
- insurance companies offering banking facilities.

#### **2.6.4 Threat of substitute services**

The fourth competitive force (refer to Figure 2.2) is the threat of substitute services which can easily be replaced by other services (Hellriegel & Slocum, 1996:92). One of the biggest substitute threats is technology which can offer advantages and disadvantages to the banking industry. Amos (1997:9) remarks that the bank of the future is one that will be more convenient and more accessible to customers than ever before. This will enable customers to do their banking whenever they want, wherever they want, 24 hours a day, anywhere in the world. Electronic service terminals, ATMs, Internet and telephone banking mean customers rarely need to go into banks. The revolution involves taking banking to the customer rather than forcing the customer to come to the bank, which offers customers convenience, service, security and better value for money.

The Banking Council (1997:24) is of the opinion that providing cash in the South African crime-ridden environment is a major problem for banks. South Africans rank amongst the most frequent users of ATM's in the world as they are very cash-dependent. Constant cash movements around the country are very costly. Large losses sustained from bank robberies mean that tighter security is needed to protect money, personnel and customers. Electronic deliveries are an attractive alternative for the future as they have three key advantages:

- **Safety:** cash does not have to be carried around
- **Convenience:** the money is available at any point of sale, and frequent trips to the bank are avoided
- **Lower cost:** handling cash costs the banks much more than electronic transmission and once the full costs of cash-handling are passed on to the customer, the benefits of using electronic devices will become much more apparent.

The researcher sees the above as an opportunity for the future of banking, but, also as a threat. As a threat because technology is due to reduce the need for high staff compliments and representation. It further could also cause job loss and unemployment which will have an adverse effect on the South African economy.

### 2.6.5 The customer bargaining power

The fifth and last competitive force (refer to Figure 2.2) is the customer bargaining power. Customers of goods or services, try to force down prices, to obtain more or higher quality products while holding prices constant. With this approach customers increase competition among competitors by playing one against the other (Hellriegel & Slocum, 1996:93). Customer bargaining power is likely to be intense under the following circumstances:

- where the customer continuously purchases large volumes from the supplier
- where the product or service purchased is regarded as significant expenditure
- where the threat of backward integration exist, for example this is when a organisation enters the business of becoming suppliers to ensure quality, on time delivery and stable prices
- where customers could choose alternatives from competitors who offers the same service or products at lower prices.

Retail banking is under pressure, especially, the four big banks (Banking Council, 1998:15). This is so because, as a result of the extensive public interface banks are exposed to criticism regarding relations with their customers. In the past customers were loyal to their banks no matter what kind of service they received. Towards the end of the 1990s customers became far

more demanding, better educated and would shift their accounts if their needs were better satisfied somewhere else. Banks are both conscious of this and concerned about the situation and have implemented customer care programmes to address the problem. Customer bargaining power has become a huge treat to any bank and a force to be reckoned with.

## **2.7            Summary**

Pressure on banks to contain costs while providing different types of services for various market segments resulted in declining service standards in the banking industry. Competition for market share is intense and likely to result in more mergers as well as the withdrawal of foreign banks. Banks strive to differentiate themselves from their competitors. The only successful differentiating factor is customer service. In chapter three the researcher analyses the concept of customer service quality and excellence.

## **CUSTOMER SERVICE QUALITY AND EXCELLENCE**

### **3.1           Introduction**

In chapter two the intense competition for market share in the banking industry was highlighted and analysed. The banking industry, which is characterised by standard products, is “over banked” in relation to the market size and various competitive forces. The key differentiating factor namely customer service, is the main topic of the following two chapters. The aim of this chapter is to analyse customer service. The chapter commences with an examination of who the customer is and the concept superior customer service. Thereafter, customer expectations and needs are investigated, followed by the factors involved in providing excellent customer service. Finally, steps towards ensuring quality service are recommended.

### **3.2           Who is the customer?**

In chapter one the researcher defined a customer as: “one who buys regularly from one seller, or an account holder of a bank.” In this section the researcher will elaborate on who the customer is.

Naumann (1995:163) is of the opinion that customers are probably an organisation's most valuable asset and should be nurtured and developed. Every customer should be the object of a proactive, bonding relationship. Customers should be integrated into the organisation's decision-making processes. To be truly customer-driven, an organisation must spread the customers touch throughout the organisation.

According to Schoeman (1997:26) customers can be divided into internal and external customers. External customers are all customers which falls outside the organisations. Internal customers are fellow members of staff at all levels. External customers (outsiders) will not receive superior service unless internal customers (colleagues) are willing to render the best service to one another. The researcher wishes to reinforce the above by stating: although an employee may not serve external customers directly, this employee will serve other employees (internal customers) who do serve customers directly. Drucker (1989) in Christopher (1992:1) maintains that the purpose of a business can be seen as "to create customers". What the customer decides is of value and importance is what a organisation should produce in order to prosper.

The external customer, or client, does an organisation a favour by supporting the business. These external customers should not be viewed as an irritation, nor as an interruption to employees work, they are the reason the organisation

exists. A business should furthermore identify those customers who are most important to the business, and focus on them (Manning, 1989:107).

This perception is based on the 80/20 rule, which suggests that 80% of an organisation's customers will give 20% of the organisation's results. The other 20% of customers will account for 80% of results. It becomes important to categorise customers accordingly. Each category of customer needs is different and requires a different approach. Figure 3.1 below illustrates what an organisation's customer base comprises of:

- **Today's key customers:** current 20% most valuable customers, who account for 80% of the results.
- **Tomorrow's key customers:** future 20% (still to be targeted) most valuable customers.
- **The rest:** the other 80%, who only account for 20% of the results.

**Figure 3.1 The 80/20 rule**



**Source: Adapted from Manning (1989:111)**

It makes economical sense to pay attention to the most valuable 20% of customers, that, is today and tomorrow's key customers. These customers are

the most profitable to the organisation and must be carefully selected. The following factors place customers into the "key customer" category, both today and tomorrow (Manning, 1989:112):

- the customer should contribute meaningfully to the organisation's profits
- the customer should operate in an area of the market that is important to the organisation's future
- the customer's market segment should be growing and have significant growth potential
- they should want, or need, the products or services that the organisation provides
- the customer should really want to become the organisation's long-term partner
- the customer should be prepared to share confidential information with the organisation
- the customer should want a mutually rewarding relationship
- if possible, these customers should be leaders in their field.

Deciding what special treatment to give key customers begins with the organisation's knowledge and understanding of these customers. As many people as possible in the organisation should know who the key customers are.



The organisation also needs to know what the competitors are doing, or might do, to attract their customers.

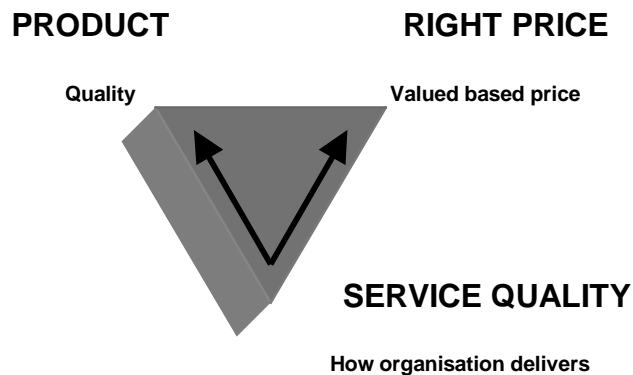
### **3.3 Superior customer service**

Martin (1993:9) remarks that customer service is often the only contact that the public has with a company. Superior service or its lack could be a serious factor in the reputation and success of an organisation. Superior customer service is thus the key to success for any organisation with customer service responsibility. Quality customer service is thus the foundation upon which an organisation's success and profits are built.

Schoeman (1997:14) describes service as the way in which one assists one's customers. Superior service creates an impression of quality by exceeding customer expectations, thereby surprising the customer. Customer surprise will for example occur if a customer purchases a second-hand vehicle and the salesman ensure that the vehicle's tank is filled with petrol. If the vehicle gets washed inside and out and the salesman places a complimentary bottle of champagne in the vehicle, these actions can be regarded as outstanding service and customer delight. When customers receive such service, the ideal business atmosphere is created. This is an advantage to both customer and staff as employee satisfaction is obtained and the organisation gains success.

Figure 3.2 outlines the customer service triangle, which suggests that with excellent, superior service an organisation's products and prices will be supported.

**Figure 3.2 The customer service triangle**



**Sources: Adapted from Schoeman (1997:13) and Naumann (1995:17)**

Naumann (1995:17) refers to the above Figure 3.2 as the customer service and value triangle, which consists of product quality, service quality and valued-based prices. Product quality and service quality support price. When poor quality products, or services are produced the value-based price will fail. Similarly, if prices are set too high for a product, sales will suffer. To have a good product, but poor service will also not maximise customer value. Customer value is created when customer expectations in each of the three areas are met, or exceeded. Failing to meet customer expectations in any one of these areas means failing to deliver good customer value and service.

The researcher is of the opinion that banks also compete in the service industry since they offer products as well as related services at valued prices. Products and related services must therefore be balanced for a bank to excel and produce superior customer service.

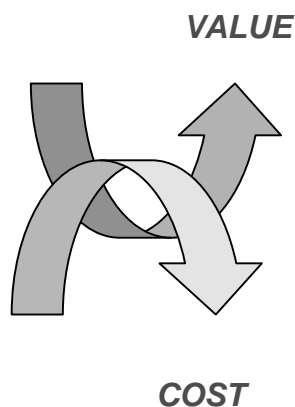
### **3.3.1 The basic principles of superior service**

Manning (1989:62) suggests some basic principles of superior service, which will help the organisation to stay in business and make a profit.

#### **3.3.1.1 Everything an organisation does must drive customer value up and organisation costs down**

Everyone in an organisation must focus on two goals as shown in Figure 3.3.

**Figure 3.3 Value up, cost down**



**Source: Adapted from Manning (1989:63)**

Firstly, the value to the customer must be driven up and secondly, the organisation's costs must be driven down. The above is not a once off project: it becomes a continuous project to be worked on over and over again. The aim should be that it must become one of the organisation's main goals. The Japanese refer to this project as "Kaizen" which means "do it 100% well today, however, better tomorrow". Management's reaction to this suggestion is usually negative, as they perceive that value costs money. When value is to be driven up, organisations tend to spend more. Value and lower costs result from doing the right thing, the right way, right the first time and right on time. Quality does pay eventually.

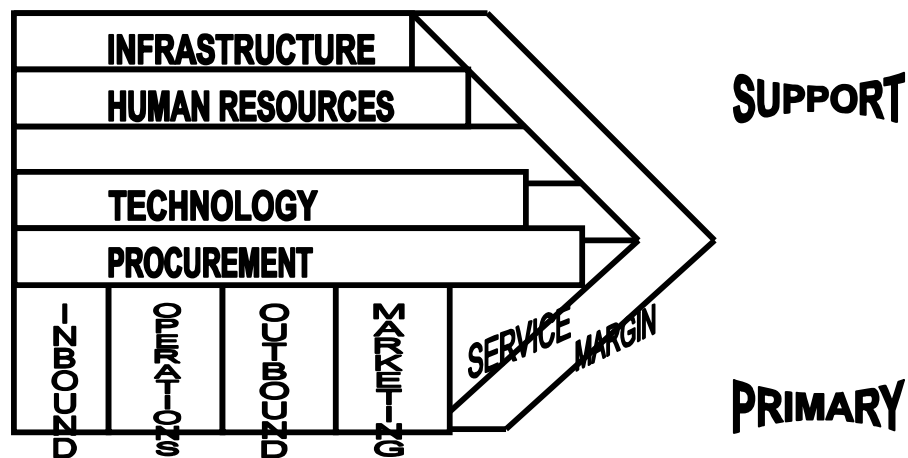
### **3.3.1.2 Customer care is everybody's business**

Customer care should be an obsession in all organisations. All parties must be involved. Customer care is not something only sales teams need, or something taught only to service teams in order not to spoil a sale. Neither is it a short-term project, nor a "quick fix", or a conference theme. Customer care is a way of life; it is an attitude, a habit and a never-ending quest to proceed a little further, try a bit harder and improve a bit more.

Customer care is hard work and mostly needs to be enforced, as it is unnatural to organisations. A commitment to customer service, forces organisations to have an external focus. The objective is to build sales, market shares and

profits. Customer care needs backup from top management and their systems. Michael Porter (1985:37) refers to this as the “value chain”. Every link is important. Total teamwork is an absolute necessity. The value chain, as outlined in Figure 3.4, becomes a major tool for identifying ways to create more value in an organisation.

**Figure 3.4 The generic value chain**



**Source: Adapted from Porter (1985:37)**

The value chain (as shown in Figure 3.4 above) breaks the organisation into nine value-creating activities. The aim is to understand the behaviour of costs in the specific business and the potential sources of competitive differentiation. The nine value-creating activities include five primary activities and four support activities. The views of Kotler and Armstrong (1996:54) that an organisation consists of a collection of activities performed: to design, produce, market,

deliver, and support the firm's products, tie in well with the elements of Porter's value chain.

These integrated activities are briefly discussed as follows:

- **The primary activities:** These involve the bringing materials into the business (inbound logistics), operating on them (operations), sending the finished product out (outbound logistics), marketing them (marketing the sales) and servicing the product (service).
- **The support activities:** These occur within each of the primary activities (refer to Figure 3.4). Procurement involves obtaining the various inputs for each primary activity. Only the purchasing department is responsible for procurement. Technology development and human resource management occur in all departments as support activities. The organisation's infrastructure covers the overheads of general management, planning, finance, accounting, legal and government affairs. An organisation should examine its costs and performance in each value-creating activity to look for improvements. An organisation should use its competitor's costs and performances as benchmarks, to ensure that the organisation can perform certain activities better than its competitors. Such performance will enable the organisation to achieve a competitive advantage and so improve customer service.

### **3.3.1.3 Top Management Commitment**

Excellent service commences with top management commitment (Manning, 1989:67). Service must be driven through the organisation from the top down. Employees at lower levels might draw attention to the need for better service, but sooner or later top management must get involved to make a major difference to service levels. For any organisation to become customer focused, a quantum leap towards change is necessary. To change direction is never easy, changing from the bottom is impossible. The top management must create a climate of high performance and provide the structure together with the appropriate systems. The top management of an organisation must recognise the existence of both internal and external customers (refer to item 3.2). If top management believe customers come first and lives by this belief, customers will experience this through improved service.

### **3.3.1.4 Superior customer service requires total commitment**

Organisations cannot be successful in the long run if they rely on exceptional individual performances. To make customer service a way of life in an organisation, it needs to be driven in several ways. It commences with a revolution in management thinking and behaviour. The way employees are treated inside an organisation determines the way customers will be treated. Customer service cannot be delegated. Employees must be trained to create value for customers through information, resources, support and rewards.

Therefore, it must be monitored, measured, encouraged and publicised. Customer service is a process that must be managed at all times.

### 3.3.2 The reasons why customer service is important

Martin (1993:25) gives the following reasons why customer service is important.

- **Growth of the service industry:** There are more organisations providing service than ever before, especially in the banking industry (refer to chapter two). The growth of service-related organisations continues to expand.
- **Increased competition:** Competition in the banking industry is keen. The survival of banks and other organisations depends on obtaining the competitive edge. Quality customer service can provide competitive advantage.
- **Improved understanding of the consumer:** It becomes important to understand why customers prefer certain services and avoid others. Quality products with realistic, value-added prices become a must. Customers also want to be treated well and repeat business at places that emphasise superior customer service.
- **Quality customer service makes economic sense:** The lifeblood of any organisation is to repeat business and to expand the customer base. This means the organisation must not only attract new customers, but must also retain existing customers (refer to chapter four). Quality service assists in retaining customers.



### 3.3.3 Dimensions of quality customer service

Two primary dimensions make up quality customer service (Martin, 1993:19): the procedural dimension and the personal dimension. Each is critical to the delivery of quality service.

- The *procedural* side of service consists of the established systems and procedures to deliver products and/or service.
- The *personal* side of service involves the attitudes, behaviours and verbal skills of the service personnel in interacting with customers.

### 3.4 Customer expectations and needs

Schoeman (1997:14-17) outlines the essentials a customer perceives as being important. These are excellent service, service quality, effectiveness, the right price and integrity. These expectations and needs will now be discussed.

#### 3.4.1 Excellent service

Excellent service refers to the organisation's performance in terms of:

- **Time and speed:** In a competitive business environment speed is vital for success. For example, in the banking world, foreign exchange deals can be won or lost within seconds. Banks need to continue to offer the best service and products to customers in terms of shortened reaction times. This can

be done by providing faster service, giving customers feedback, avoiding delays and reacting quickly when needing to.

- **Consistency:** This means to continually maintain a high standard. Organisations and employees must do everything to the best of their ability and always to the customer's advantage.
- **Customer fears:** Organisations must attempt to explain and reassure the customer at all times, so as to remove the fears. Fears are caused by:
  - previous negative experiences or, negative reports to the customer
  - financial reasons such as the possibility of losing money
  - insecurity, for example “will not get what is required”, “will not manage the product” and “will not understand how the product works”.
- **Dealing with customer accounts:** Building a customer relationship and ensuring that the bank will keep the customer depends on how well the bank accounts department excels in its jobs in terms of:
  - guaranteeing excellent quality and service
  - agreeing beforehand how the customer will pay for a service
  - not adding extra costs or fees to accounts once fees have been set
  - thanking the customer when accounts are paid
  - ensuring the accounts are, clearly laid out, accurately set up and timorously sent out.
- **Accessibility:** Organisations need to be visible, easily reachable.
- **Information:** Organisations must provide clear and regular information and make sure customers become aware through advertising and marketing.

The customer must enjoy visiting the organisation's outlet.

Customers need to be informed about:

- what exactly the organisation sells, any specials and new products
- Improvements, delays, and changes
- New services by utilising simple but clear advertising, large notices, well-trained staff at service points.

### **3.4.2 Service quality**

Schoeman, (1997:20-21) recommends that organisations should at all times render outstanding service and provide quality products to satisfy the customer. Service must be regarded as being more important than the profits, or as the growth of the organisation. The customer needs to know when visiting the organisation that he/she will be served in the best possible way. When a bank's customer account is transferred, it need to be done quickly, efficiently and with excellence. The customer should never have cause to say: "What a mess".

### **3.4.3 Effectiveness**

Effectiveness means that work is done on time, by the due date and preferably earlier. Being effective implies that the organisation needs to remain involved after the business has been conducted. To follow up on customer satisfaction ties customers to an organisation. These customers then become advertisers for the organisation. Poor performance arises in banks when an employee says

a chequebook have arrived, yet when the customer collects, time and again something is not right. This is simply unacceptable and is one of the “best” ways to lose customers. Problems need to be communicated to customers upfront.

#### **3.4.4 The right price**

The product quality justifies the price. A higher price does not necessarily guarantee better quality or service. The customer must at all times feel as though he or she is being given value for money. If prices increase unnecessarily to increase profits, customers will be frightened off. For example in banks if a specialised counter is provided for a particular service at a higher service fee, but the service delivery is prolonged due to this, the objective is deceived, causing customer dissatisfaction.

#### **3.4.5 Integrity**

Honest, trustworthy staff are a pre requisite for rendering superior customer services. Schoeman (1997:22) defines integrity as honesty (the truth), trustworthiness (keeping promises); fairness (acknowledging other people’s rights and interest) and respect (for other people and their property). Integrity implies that organisations set certain moral standards for the organisation and its employees. Management needs to set the example.

### 3.5 What do customers regard as excellent service?

According to Manning (1989:59) customers seek excellence service out of the following factors when buying products and services.

- **Customer expectations must be met:** Aggressive marketers spend large amounts on shaping customer expectations with extravagant advertising promises. This causes customers to expect certain standards of performance. If an organisation cannot keep a promise, it is advisable not to make any promises. Building trust takes time and money: destroying trust takes just a moment and can be done by anyone in an organisation.
- **Customers want to be treated with respect:** Customers would like to be treated with warmth and deference. Staff should show customers' respect by being polite and concerned about customer needs. To solve the customer's problem should be the employee's priority.
- **Customers want to be heard:** Organisations need to pay attention to what customers say. A key cause of customer dissatisfaction is that "nobody listens". The best way to convert a one-time buyer into a long-term customer is to listen. Customers paying good money for a product, or service and then finding it unsatisfactory are entitled to a little "air time". Customers must be given the opportunity to express their views about what precisely they find problem with.
- **Customers want to feel the organisation supports them:** Every employee must understand the following: Firstly, the employee is the organisation in the eyes of the customer. Customers deal with the individual

before them, not with a faceless organisation. Secondly, it is an employee's responsibility to build a relationship between the organisation and the customer. In the most successful organisations a customer relationship is a win-win partnership where both parties gain (Hopson & Scally, 1989:22).

The customer wins because everybody likes quality treatment, and the employee wins because s/he gets more satisfaction from a job well done. The organisation also wins because evidence shows that customers return for quality attention.

- **Customers need enough information to make sensible buying decisions:** Frontline staff need to know enough about their organisation and its products and services to give customers professional assistance.

### 3.6 Steps towards quality customer service

Martin (1993:29) outlines five steps to quality customer service, which will be discussed in this section in detail.

#### 3.6.1 Step 1: Send out a positive attitude

- **Portray a positive attitude:** Customers service attempts fail because of attitude. An attitude is a state of mind influenced by feelings such as thoughts and action tendencies. The attitude projected is the attitude

expected in return. The best support for customer service is sending out a positive attitude. The attitude employees' project to others depends primarily on the way they look at their jobs. Martin (1993:39-40) explains why it is important to portray a positive attitude. Customer relations are an integral part of any job and not an extension thereof. Nothing is more important to any organisation than their customers. Without customers, the organisation could not exist. Satisfied customers are essential to the success of an organisation. Business grows through satisfied customers, which not only ensure customers come back, but that they also bring their friends. Quality customer care is learned not inherited. To be able to excel in customer care requires practice and experience. The more that is put in the more will be received.

- **Communicate the best image:** One good way to send out a positive attitude is by personal appearance. Creating a good first impression is essential as one seldom get a second chance. There is a direct connection between self-perception and a person's attitude. The better self-image an employee can portray when encountering customers, the more positive the employee will become. To be "quick" mentally means communicating a positive self-image.
- **Body language:** This can account for more than half the message a person wishes to communicate.
- **The tone of voice used:** The tone of voice used or how something is said is often more important than the words themselves. The tone of voice used could mean the difference between adequate job success and outstanding

job success or between adequate customer service and quality customer service.

- **Telephone attitude:** Skill on the telephone is important because:
  - the person speaking has only a voice to rely on: body language, written and visual aids are unavailable
  - when a person is on the telephone with a customer they become the sole representatives of the organisation: the person therefore becomes the organisation.

The following rules are reminders to employees when dealing with customers over the telephone as well as “face-to-face” (Friedman, 1992):

- Give the caller or visitor your full attention, shuffling papers, typing or whispering to co-employees is offensive. Pieces of paper can be pushed aside. Customers must always get top priority and attention.
- Rather than rush a talkative customer, guide them back to the purpose of their call. Employees need to take time to get all the necessary information.
- Treat all customers friendly, equally and let your personalities shine through. Customers enjoy dealing with real human beings. Furthermore, customers mirror how they are treated.
- Answer questions completely and do not allow interruptions. Keep a sense of humour in trying situations.
- Use easy, correct and simple language to minimise confusion. Explain unfamiliar words, terms and jargon, and do not use slang.
- Good manners never go out of style and should always be remembered.



### 3.6.2 **Step 2: Identify the needs of the customers**

Although this aspect was discussed in item 3.4 it, need to be briefly touched on again to highlight its importance. It is important to understand, what: the customer wants, needs, thinks, feels and organisations should also know what it takes to satisfy the customer. Furthermore what it will take to prompt the customer to return. The following will assist in identifying the needs of customers to enable organisations to improve their service:

- **Timing requirements:** To know how long a service takes is critical in order to provide quality service. For example, a transaction should be completed within minutes where possible and telephone calls should be answered within three rings.
- **Anticipating the customer needs:** Organisations need to try to be one step ahead of their customers. Proper anticipation of what customers need is the key to an organisation's day-to-day success.
- **Understanding basic customer needs:** The customer needs to:
  - be understood: the customer's message must be interpreted correctly
  - feel welcome: customers must feel that employees are happy to see them and regard their business as important
  - feel important: customers must feel special.
- **Reading the customer:** Identify customer needs through attentiveness. This means that to understand what customers may need and want goes beyond promptness and anticipation. Organisations need to be "tuned-in" to

the customers needs. Reading the customer requires being sensitive to both non-verbal and verbal signals that customers send out. Empathy is what understanding is all about. This means the organisation and its employees need to put themselves in the position of their customers and look at things through their customers eyes.

- **Skilful listening:** Organisations must identify customer needs by skilful listening. Employees need to become better listeners. For example, when a customer arrives employees must stop talking, avoid distractions, concentrate on what is being said, look for the “real” meaning and provide feedback to the customer.
- **Feedback:** Organisations must identify customer needs by obtaining feedback and then analyse what customers feel, think, need and want. Listen to customer suggestions and ensure customers are satisfied. Organisations need to design ways to obtain feedback from customers.

### 3.6.3 Step 3: Provide for the customers needs

The third step in providing quality customer service is to recognise and understand the service the organisation wishes to provide (Martin, 1993:56-58). This means understanding the organisation service characteristics. Considering these characteristics will allow the organisation to elevate the service provided as seen through the customer's eyes.

Organisations should analyse the following service characteristics and questions:

- **People or “things” orientation:** Is the service provided more people oriented, or is it more oriented towards “things” (i.e. machines, equipment and technology)?
- **High tech or low tech:** If technology is involved in the delivery of the service provided, is it “state of the art”, or are more traditional tools and systems used?
- **Personal interaction:** This characteristic can be divided into three parts:
  - *Physical:* Do the parties involved in the service interaction actually see each other?
  - *Mental:* To what extent does the interaction require the employee and customer involved to think, to analyse, and to comprehend?
  - *Emotional:* To what extent is the interaction influenced by on emotional reaction and situations?
- **Time involvement:** What is the duration and frequency of the service?
- **Location:** Does the service take place at the customer’s office, or at the organisation’s premises?
- **Complexity:** Precisely how complex is the service or delivery system? How much complexity does the customer visualise? Are the service delivery systems simple?
- **Accommodation:** Has the flexibility and adaptability of the service system been accommodated? Can the organisation’s systems be adjusted to meet unique or different customer needs?

- **Numbers served per transaction:** How many customers are provided for during a single service transaction?
- **Training:** How much training, education and expertise are needed to deliver the service?
- **Supervision:** How much supervision is required?

#### 3.6.4 **Step 4: Cater for backup duties and the unexpected**

To treat customers as if they are special means performing back-up tasks with positive energy and interest (Martin, 1993:61). Back-up duties are often shared with colleagues. Employees need to “pull their weight” at all levels of service. When the unexpected happens, the organisation that becomes most concerned with customer service will excel. The best approach would be for organisations to think ahead about what might go wrong and to consider back-up scenarios.

Unexpected occurrences often place extra burdens on the ability to deliver quality customer service. While all possible occurrences may not be foreseen, common or expected situations can be anticipated. In these cases, contingency plans can be developed to assist in possible abnormal circumstances. For example banks extensively prepared for Y2K thinking ahead and preparing back-ups and contingency plans, with the aim to disrupt customer service to the minimum when the new millennium commenced.

### 3.6.5 Step 5: Ensure that the customer returns

Martin (1993:72) believes “that customers are not the icing on the cake – customers are the cake. The icing is an improved reputation and higher profits because of the result of a quality job”.

In chapter four the researcher will highlight the importance of customer retention. It is, however, necessary to make mention here of what is required to ensure that customers return:

- **Handling customer complaints:** The general opinion is that it costs at least six times more to attract a new customer than to keep a current one (Martin, 1993:73). The following is a brief outline of how to handle customer complaints:
  - *listen* carefully to the complaint
  - *repeat* the complaint back to the customer to ensure that it has been heard correctly
  - *apologise* where necessary to the customer
  - *acknowledge* the customer’s feelings (anger, frustration, and disappointment)
  - *explain* to the customer what action will be taken to correct the problem
  - *thank* the customer for bringing the problem to the organisation’s attention.
- **Getting difficult customers on an organisation’s side:** Difficult customers can be handled in the following ways (Martin, 1993:77):

- ❑ employees must not take complaints personally; the customer is not attacking the person, but rather the organisation
  - ❑ employees must remain calm and listen carefully
  - ❑ employees must focus on the problem, not the person
  - ❑ employees need to be rewarded for turning difficult customers into satisfied customers.
- 
- **Upset customers expectations:** According to Morgan (1989:36) upset customers expect:
    - ❑ to be listened to
    - ❑ to be taken seriously
    - ❑ to be treated with respect
    - ❑ to achieve immediate action
    - ❑ to gain compensation and restitution
    - ❑ to have the party who wronged the customer be reprimanded
    - ❑ to solve the problem so it never happens again.
  
  - **The importance of calming upset customers:** Morgan (1989:64) is of the opinion that customers are the reason employees have jobs. Customers deserve to have their complaints made known and, when appropriate to have something done about the complaints. Organisations “need” customer complaints when organisations respond to customer concerns promptly and professionally, the customers will keep coming back “satisfied”. Organisations and employees learn from encounters with upset customers.

Often organisations and employees do things that increase customer annoyance and escalate customer anger. Organisations need to become aware of this behaviour and work at eliminating these problems. By paying attention to personal presentation, language, tone and body language, employees can prevent annoyance escalating into anger. Employees need to listen carefully, sincerely and fully to customer concerns.

### **3.7 Summary**

One valid definition of business purpose is to create customers. The customer determines what a business is. To deliver high customer service, should be the dominant goal of all banks. The customer makes decisions based on delivered customer service, which consists of: product quality, service quality and value based pricing. The researcher is of the opinion that in banks to keep customers satisfied involves more than simply opening a complaint department, smiling a lot and being nice to customers. The banks that excel are the banks taking care of customers, by setting high customer service standards and making efforts to achieve these standards. At these banks exceptional value and superior service are more than a set of policies or actions: they become the organisation and play an important part in the overall organisation culture. Concern for the customer becomes a matter of pride to everyone in the bank.

The art of treating customers as special guests can be broken into five simple steps which could guide a bank towards quality customer service:

- transmitting a positive attitude
- identifying the needs of the customers
- providing for customers' needs
- catering for the unexpected
- cultivating repeat business.

In chapter four the researcher investigates why it has become critical to manage customer loyalty to ensure customer retention in banks, which could give a bank the opportunity to build “customers for life.”



## CHAPTER FOUR

### CUSTOMER LOYALTY AND RETENTION THROUGH

### SERVICE EXCELLENCE

#### 4.1 Introduction

In chapter three the researcher analysed who can be regarded as a customer, what the customer needs and expects and how to provide superior customer service by following certain basic steps. The aim of this chapter is to explain the importance of building customer loyalty and retaining them through excellent service. Retaining customers by achieving customer satisfaction is the core of obtaining long term profitability. This chapter commences with a definition of service quality. Thereafter it explains how to manage customer loyalty. Next follows a discussion on how to retain customers.

#### 4.2 Defining service quality

Boshoff (1990:74) describes quality as being an unusually slippery concept, easy to visualise but difficult to describe and measure. The following three elements attempt to *define quality*:

- **Degree of excellence:** This is determined by how well the initial products perform and their intended function and advantages they offer relative to competitors' products.
- **Control of variability:** This determines how well the product performs its function and adheres to safety regulations without defects.
- **Acceptable cost:** Product quality needs to be achieved with limited resources. To be profitable a product must be offered at an acceptable price while quality is controlled at the same time.

Quality therefore seems to be a multi-dimensional concept, which offers various meanings to different industries (Boshoff, 1990:80-81). It appears impossible to capture the essence of the quality concept in a definition of a few words. It is best to *describe quality* using the following eight *dimensions*:

- performance: the primary operating characteristics of products
- features: the secondary characteristics that supplement the products' basic characteristics
- reliability: the degree of a product's failure within a specified period of time
- conformance: the degree to which a product's design and operating characteristics matches pre-established standards
- durability: the useful life before a product physically deteriorates
- service ability: the ease, speed and competence of the repair of a product
- aesthetics: the customer's perception of how a product looks, feels, sounds, tastes or smells
- perceived quality: the image, reputation and name of the product.

The above quality dimensions are self-contained. A product can be ranked high in one dimension and low in another. The dimensions cover a broad range of concepts. The dimensions can be: objective and timeless, measurable or not, shifting with fashion change or not. Govendor (1998:16) is of the opinion that in the banking industry the intangibility of services makes it difficult for management, employees and customers to assess service quality.

To understand the service quality concept better the following *theories* can be employed (Boshoff, 1990:178-179):

- **Attribute theory:** By drawing on a product quality perspective, attempts are made to describe the attributes of the service delivery system. The management of an organisation can manipulate attributes which effect service quality levels.
- **Customer satisfaction theory:** This theory regards service quality as a perception of quality. The level of service quality is defined as the difference between expected service and actual service received. Delivering quality service means conforming to customer expectations and satisfaction on a consistent and ongoing basis. Perceived quality is suggested as a means of conceptualising service quality as it is based on what customers regard as quality rather than an tangible use of quality. Service quality is the result of a comparison between expected service and an evaluation of

service actually received during a service delivery. Service is thus only of desired standard if the customer sees it as quality.

- **Interaction theory:** Service quality is produced through personal interaction between the organisation's employees and their customers. Both parties benefit through the mutual satisfaction of specific needs.

**Cultural theory:** Service quality can be influenced by cultural considerations, which entail both the culture in which the service is produced and the cultural background of customers. In South Africa cultural theory is linked to service quality.

Therefore, in this research in the banking industry (refer to item 1.4), quality can be defined as "the degree to which the customer's expectations are met or exceeded."

#### **4.3 Managing customer loyalty**

Linton (1993:178) is of opinion that financial institutions have an opportunity to build customers for life. This is not a new concept for banks or building societies. However, in the competitive financial services market the concept has taken on a new dimension. Traditionally few people changed their bank accounts unless there were serious problems. The amalgamation of various service institutions has however increased the customer's choices.

As discussed in chapter two, banks in the past provided for current accounts, building societies for savings or home loans, and insurance companies for insurance. Towards the end of the 1990s all these institutions started offering similar services, as a result of changes in the financial regulations. Since all these financial institutions strive to attract the same customers, so when the customer has been attracted everything has to be done to retain that customer.

By analysing customers' changing needs, these institutions could develop a broad portfolio of products and services, which would continue to meet the customer's changing needs. The techniques to retain customers through managing loyalty includes: competition through customer service, using credit card marketing to segment markets, financial advice to customers, offering customer's greater variety, customer convenience and support for small businesses, customer support internationally and sharing technology benefits with customers. These techniques will now be discussed in more detail:

#### **4.3.1 Competition through customer service**

When competing through customer service the objectives would be to provide the highest standard of service and to develop an evolving range of products to satisfy customer needs. Customer service is a combination of the following factors:

- **Technology used to improve customer service:** The banking industry has made a major investment in technology, by automating many of the back-office functions to free employees to concentrate on building relationships with customers. Technology could also be utilised to improve front-line functions and personal services to customers. For example, in banks, by holding all customer information on computer, staff can speed up the response to a customer enquiry and can demonstrate higher standards of customer care because banks do not have to ask customers for routine details.
- **Building relationships:** Computerised customer information could also be utilised to develop a personal portfolio of services for individual customers. Database information becomes a vital element in building customer profiles and tailoring services to customers. It becomes important for employees to know how to use this information to build customer relations. Staff training is therefore a vital element.
- **To maintain contact with customers:** Continuous advertising campaigns need to reflect to customers how the institutions intend to meet changing requirements. Regular post, television and Internet advertising assist in keeping customers up to date concerning the changing product and service profile. Advertising will further enable customers to exploit direct marketing opportunities.
- **Introduce understanding in local branches:** This entails introducing the services to the organisation's branches, thereby obtaining employee

commitment. Organisations need to launch guidelines internally explaining the principles of how customers are to be retained for life. The guidelines need to indicate which employees will be involved and how responsibilities will be apportioned. The guidelines should further describe the benefits of the programme and explain the communications that support it.

#### **4.3.2 Utilising credit card marketing to segment markets**

Credit card marketing could be an excellent way to build and maintain customer loyalty (Linton, 1993:180). Cards provide institutions with important information about their customers such as their spending patterns. Cards also act as an effective base for direct marketing. Cards become important as they allow markets to be equally segmented. In banks, for example, the concept of “customers for life” can be reinforced, by giving the higher income earner a gold class card which has higher credit limits or privileges. Banks traditionally issued a single card which had one level of issue with different levels of expenditure. However, competition in the credit card market meant that other card issuers captured the banks’ traditional business, therefore affecting customer retention programmes. Banks responded by introducing a wider range of card products aimed at different sectors of the market. Banks also encouraged higher levels of use and expenditure by rewarding customers for frequent use. Frequent

user programmes provide customers with high value gifts as an incentive to stay loyal.

According to Linton (1993:187) credit cards offer customers the means to control their spending on travel and entertainment simplify administration and improve cash flow. Banks by segmenting their business could increase their market penetration and offer their customers a higher value service, which will also build long-term business relationships. For example, consider an engineering firm with a large nation-wide sales force and a series of regional sales offices, wishing to explore ways to increase control over its sale force costs at regional and national level. The bank would be able to develop a statement structure so that the customer's local office gets a summary and individual statements for the entire staff for control purposes and a complete version is sent to the customer's head office for settlement.

The various sales managers and financial controllers of the engineering firm would be able to analyse the statements and identify areas where further control needs to be exercised. The bank is also able to issue a trader summary, which shows where the money is being spent. The statements identify hotel groups, restaurants and petrol companies, which are regularly being used. By adding up the expenditure and negotiating volume discounts with preferred suppliers, the customer is able to reduce its overall expenditure. The bank has therefore been able to contribute to the improvement of the customer's business process and so provide excellent service.



Another way in which the bank can assist the customer's business would be to offer a range of credit cards under one administrative scheme (Linton, 1993:188). For example:

- delivery drivers could get a "petrol only" charge card
- salespeople, for example, could get cards, which could be restricted to petrol, entertainment and travel accommodation
- directors and senior managers could get a higher status card which has higher spending limits and a number of privileges attached to it. For example, executives travelling abroad could get the benefit of a travel club card, which is internationally accepted. The customer might also get discounts on travel bills and free travel insurance when using the credit card.

#### **4.3.3 Financial advice to customers**

According to Linton (1993:181) the existing customer base provides a good starting point for launching customer advice. High levels of customer care are demonstrated through advice, which also increases the sale of financial products. Insurance companies and independent financial advisers have long used this technique to introduce services and maintain customer contact. Banks could use financial health checks to build up a profile of the customer and to develop a personal portfolio tailored to that customer's needs.

This fits in with the strategy of developing customers for life and providing a personal financial service. Banks have to understand that they are in the

business of providing advice and guidance and not just running current account operations. Banks have to employ qualified staff to provide the right levels of advice: they need the right portfolio of products and services; and they need to convince customers that they are in the business of providing independent financial advice.

#### **4.3.4 Offering customers greater variety**

Financial institutions could increase market penetration by segmenting their markets and developing specific products for each one of these markets (Linton, 1993:183). This means looking through the bank's customer base and the levels of business the customers require and offering greater variety of services by following the four basic steps:

- Firstly, banks can offer customers different types of services, which match their requirements. For example, adding interest to current account balances, so that customers who maintain their accounts in credit could benefit. Furthermore offering tiered levels of interest helps to attract higher income earners and increases the overall customer base and profits.
- Secondly, banks can build in automatic overdraft facilities for creditworthy customers. This minimises inconvenience for customers and reduces administration for the bank while simultaneously showing a higher level of customer care. The ability to offer "built-in over-drafts" allows banks to target different income groups. A further variation is to provide personal loans up to a certain limit. Pre-arranged personal loans and over-drafts give

banks a much higher level of flexibility and allow them to tailor their facilities to specific groups of customers.

- Thirdly, to segment the market even further customers can be offered different versions of account packages. Each package would include different services and these could be tailored to suit individual customers. These services could be geared to: customers who occasionally overdraw and needed flexibility; customers whose accounts fluctuate regularly and customers who always maintained a “healthy” balance in their accounts.
- Lastly, savers can be given a choice of various schemes offering different rates and withdrawal methods. However, there are a number of gaps in the market, particularly at the lower end where prospects can be put off by the high minimum deposits required. To provide a wider range of services to customers who usually fall outside the savings market, banks are able to improve quality and frequency of opportunities to do business with these customers.

#### **4.3.5 Customer convenience**

Convenience could be an important factor in building customer loyalty. Banks have introduced a number of methods for making banking more convenient for their customers (Linton, 1993:184). For example, banks installed ATMs to handle simple transactions like cash withdrawals, deposits and statement requests after banking hours and away from the main banking halls. These ATMs are installed in separate outlets so that customers do not have to wait in

long queues at the various branches as in the past. Most banks have further introduced 24-hour telephone banking to extend their trading hours: for example, customers can phone with queries, and instructions for certain transactions can be given, such as for funds to be transferred.

With the introduction of Internet, banking customers obtained control over their account handling from home. A modem allows the customer access to the bank's computer to obtain information on the customer's account. The information can be displayed on a personal computer so that the customer can analyse the information. The customer can also send specific payment instructions, or make transfers. Information on bank products can be requested easily so the Internet becomes a powerful direct marketing tool, which allows banks to communicate with their customers.

#### **4.3.6 Support for small businesses**

Because of the lack of financial expertise many new businesses fail in the first year (Linton, 1993:185). Banks have an opportunity to provide a level of expertise and guidance, which could be extremely valuable to small businesses.

Most banks have small business advisers who can provide an individual, tailored service. It is important that the adviser understands the problems and opportunities of small businesses and can relate to them personally. Advisers should assist small businesses with detailed advice on finance-related issues

such as cash flow, budgeting, taxation and accounting. The bank can therefore contribute to the improvement of the “running” of the customers’ business process and so provide excellent service. In return the bank obtain customer loyalty.

#### **4.3.7 Customer support internationally**

A bank with a global branch network can provide valuable international business expertise for its customers, particularly if the customers are trying to develop export activities. The banks’ knowledge of local market conditions could prevent costly mistakes, while its understanding of currency and payment requirements means that banks could provide the company with valuable financial advice. A global bank could build up a network of branches throughout the world and develop expertise in the local industrial markets. However, key bank employees would need to be given wide-ranging international experience to build their expertise before moving into a consultancy role to assist customers (Linton, 1993:189). Working in partnership with their customers banks could assist the customer with valuable support and in return obtain the customers loyalty.

#### **4.3.8 Sharing technology benefits with customers**

By giving customers access to electronic banking technology, banks provide customers with processes and systems that could assist the customer to

develop a competitive edge. Customers gain access to the bank's international networks and systems for carrying out transactions and processing information and so customers do not have to invest in their own networks. Larger companies with many branches, particularly international operations benefit most from moving money around quickly and easily. Banks can prepare business cases, which indicates how transaction processing can be simplified by replacing paper with computer-based transactions.

To help the customer benefit from electronic banking, banks analyse skills and training requirements, assisting the customer to install any necessary equipment and familiarising customers with the new procedures. New users may not be familiar with the systems, for them banks offer an advice and guidance "help line" to reassure customers that they are fully supported. The next stage would be to show customers how to make the best use of electronic banking to improve their competitive edge. The bank uses its experience in working with other similar businesses to provide a consultancy service to customers. This consultancy service takes the bank beyond the role of supplier and into one of business partner. As customers realign their business strategies to take advantage of electronic banking networks, they become dependent on a continuing relationship with the bank (Linton, 1993:190).

#### **4.4            Customer retention**

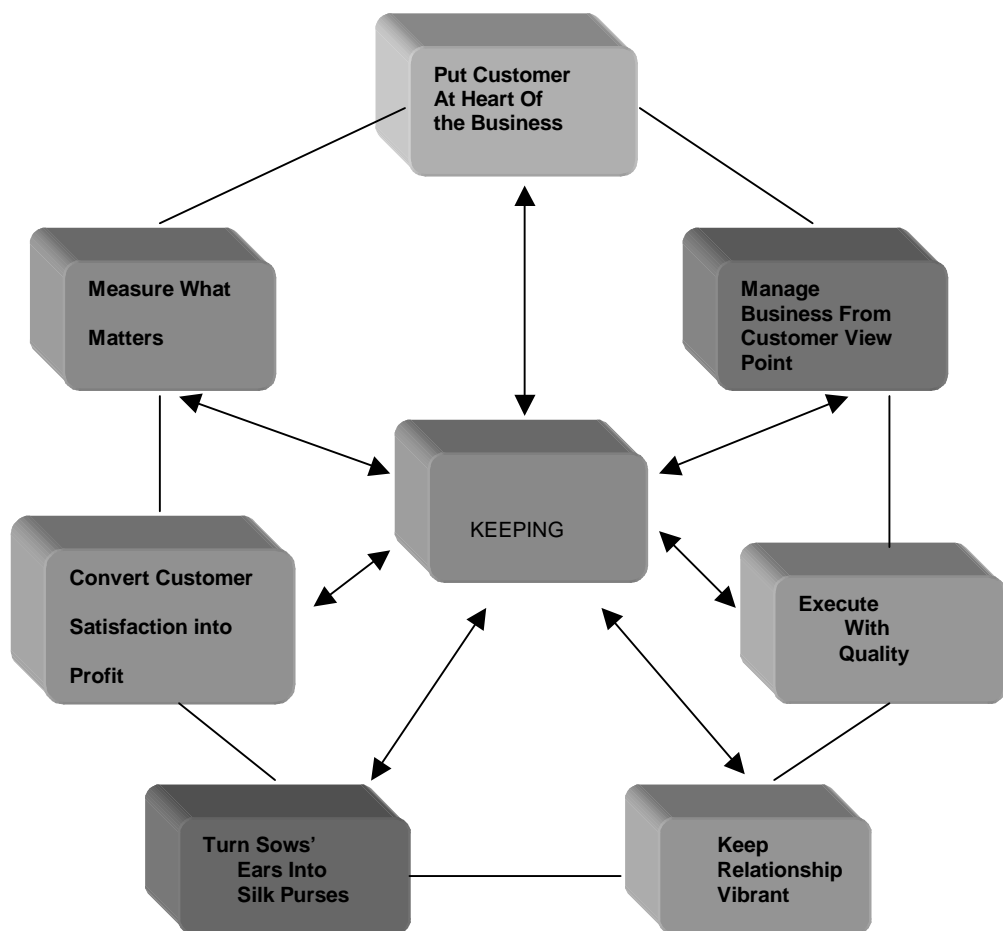
One of the main purposes of any business is to satisfy customers. Technological excellence, delivery capabilities, service skills, pricing theory and product perfection mean nothing if customers cannot be retained (Bangs, 1989:13). Retaining good customers should be as natural to an organisation as breathing is to human beings (Sviokla & Shapiro, 1993:XX). Many organisations, however, are orientated towards attracting new customers and therefore they do not invest resources in sustaining long-term relationships with their existing customers. Some organisations are furthermore unable to identify their most profitable customers and therefore lose opportunities to generate bigger profits out of these customers in the long term. In order to retain customers on a profitable basis organisations must recognise that the organisation and customer relationship develops over time and has to be managed to be successful.

##### **4.4.1            Management principles aimed at retaining customers**

Long term relationships with customers can increase an organisation's profitability along several lines (Sviokla & Shapiro, 1993:XVI). In banks, for example, marketing strategies can be designed to attract existing customers to new product applications, enhancements and support services. This can be done at a lower cost than that of seeking new customers. Long-term customers are often willing to pay higher prices to avoid incurring the expense of switching

to competitors. Furthermore, happy customers may provide useful referrals. Customer satisfaction is at the core of achieving long term profitability. Satisfaction is simply the difference between expectations and performance. But developing customers who are profitable and loyal is a complex process and involves seven management principles as outlined in Figure 4.1. Each principle on its own is insufficient, but together they build a reinforced system almost like a web to retain customers longer and extract more value from them over the long term.

**Figure 4.1 The management principles to retain customers**



**Source: Adapted from Sviokla and Shapiro (1993:XIX)**



- **Put the customer at the heart of the business:** Technological innovation has increased the range of products and services available to customers and customers in turn have become more demanding. At the same time, however, technology has improved the ability of organisations to recognise and respond to customers' demands. Market orientation is achieved by communicating customer concerns and demands throughout the organisation. To achieve this, management has to avoid the natural tendency of organisations to draw inward over time and focus on internal goals. Instead, organisations must be flexible and creative, recognising the customers' needs, rather than producing products to drive the market.
- **Manage the business from the customer's point of view:** This principle closely relates to the one above. Many businesses are designed as functional operations. Management, organisational, physical, and information systems could create barriers for co-ordination and co-operation. These impediments prevent companies from recognising potential differences between the organisation's perception and the customers' perceptions of value creation. Resources invested in inefficient, inappropriate business practise, usually adding cost, not value.
- **Execute with quality:** High quality generates brand loyalty, favourable word of mouth, and willingness on the part of customers to pay premium prices. The concept of quality is more than simply meeting product specifications. Quality implies meeting or exceeding customers' expectations in terms of: time, accuracy, responsiveness, and performance. Competitive quality management recognises that today's breakthrough product or service is

tomorrow's undifferentiated commodity. A commitment to quality at every stage of customer service delivery allows organisations to anticipate and meet customer demands (Sviokla & Shapiro, 1993:XX).

- **Keep the relationships vibrant:** Remain attuned to the changing expectations of customers. Customers often expect continual product enhancement, or require improved support to existing products. Service must meet the specific needs of the customer at the precise moment they are required.
- **Turning “sows ears into silk purses”:** This means designing management systems for recovery actions when the inevitable mistakes occur. Artful recovery often leaves a stronger positive impression than if the mistake had never occurred. The skilful manager can use recoveries as powerful symbols for the entire organisation by spreading the stories of how individuals went the extra mile for their customers. To exceed in customer expectations when things go wrong is an area where management attention can turn liabilities into assets.
- **Convert customer satisfaction into profits:** A consistent focus on managing profitable sales yields vastly more satisfying results. This requires organisations to constantly review customer behaviours to estimate both the value of a service to the customer and the cost of providing that service. Therefore, organisations must carefully evaluate their pricing strategy on an ongoing basis, or organisations may find themselves forced into providing more and more services without being able to extract more value through higher prices (Sviokla & Shapiro, 1993:XX).

- **Measure what matters:** To establish a quantitative, credible measure of satisfaction with on time delivery and customer satisfaction requires a great deal of ingenuity and commitment. Placing these measures on a “par” with return on investment, market share, and other traditional performance measures, becomes a major management challenge. Nevertheless, putting customer-based measures at the heart of an organisation, controls systems and delivers enough value to make it worth the effort. First, these measures force a company to focus on responding to customers’ needs and secondly they provide a more dynamic indication of the company’s performance. In chapter five the researcher outline in more detail how to measure service quality.

#### **4.4.2 Strategies to improve customer retention**

According to Payne (1995:57) the core issues relating to customer retention strategies are: measurement of customer retention, identifying root causes of customer defections and corrective action. These issues will now be analysed.

##### **4.4.2.1 Measurement of customer retention**

Measuring existing customer retention rates are the first critical step to improve loyalty. This involves two aspects:

- **Dimension of retention measurement:** This means to measure customer retention over time, by market segment and by product or service offered.

Some customers will buy all their products or services from one supplier, others will be serviced by various suppliers. It becomes necessary to evaluate customers by the amount they spend or how active their accounts are, otherwise high customer retention numbers may be misleading. This is common, for example, in banks customer numbers can be high, but these banks might in fact have high levels of “dormant” accounts, which means customers have defected to competitors and not yet closed their accounts.

- **Profitability segment analysis:** Some customers actually cost organisations too much to service while remaining unprofitable: to invest further in these customers could be disastrous. Organisations should therefore segment their markets by the level of profitability and identify groups of customers (niche markets) that can be retained at profitable returns.

#### **4.4.2.2 Identifying root causes of customer defections**

By understanding why customers are leaving, the organisation can commence implementing customer retention programmes Payne (1995:59). It becomes important to analyse the reasons why customers defect:

- **Following the root cause of defection analysis:** Traditional market research into customer satisfaction does not provide answers as to why

customers defect. Specially trained researchers are required who are able to probe in detail the various reasons why customers defect.

- **Trade-off analysis:** This enables an organisation to evaluate the importance customers attach to specific elements of customer service. This type of research identifies the key customer service issues, which results in customers being retained through a trade off analysis.
- **Competitive benchmarking:** This enables organisations to rate their performance against competitors by comparing critical elements of customer service in terms of what customers perceive as being important. For example, in banks it is important to assess the maximum time a customer should be waiting in a queue.
- **Customer complaint analysis:** This highlights the areas which could eventually be the cause of customer defections. It also acts as an early warning system to the organisation to resolve the problem with a customer before it is too late. In a banking situation a “recovery team” needs to be appointed which moves into action immediately a customer wishes to close his/her account.

#### **4.4.2.3 Corrective action**

Corrective action is aimed at generating improved customer loyalty with customer retention plans becoming specific (Payne, 1995:60). The issues, which should be included in such plan, are outlined as follows:

- **Visible top management endorsement:** Employees need to see that top management are: genuinely enthusiastic, supportive and involve in customer retention. This will indicate the amount of support employees would give to customer retention plans.
- **Customer retention and employee satisfaction:** The employee's priority level with regard to satisfaction and retention of customers needs to be established. Happy employees make happy customers which leads to improved service quality. It is important to carefully select frontline staff as they require appropriate interpersonal skills to build relationships with customers. Frontline staff must be trained to meet customers needs and expectations and to excel in service standards.
- **Utilise best demonstrated practices:** This involves identifying the best performers in the industry and within the organisation. These competitors and departments respectively are examined with the idea of developing new approaches to raise customer satisfaction and increase customer retention within the organisation. Sometimes it is best to borrow best practices from other industries.
- **Development of an implementation plan:** A good retention plan needs to identify and build barriers that stop customers from switching to competitors, regardless of what inducements competitors offer. For example, "*strategic building*" is offered to customers with the advantage of convenience of cost savings. Retention rates in the case of banks are significantly greater where customers utilise two or more banking services rather than only, one service. Another means to create an effective barrier to customer defection is "*team*

– *based relationship management*". An organisation that manages a team-based approach to relationship building, manages the relationship. In banks the aim is to move the customer relationship to a more enduring one by building as many links as possible between the customer and the bank, for example offering the customer a home loan, a personal loan and a credit card.

Another example to tie the bonds would be "*EDI*" (*Electronic Data Interchange*). This means/entails getting the customer to invest in sharing information about sales, inventories and benefits such as reduced system costs, efficiency and increased customer and consumer satisfaction. The prevailing idea behind retaining customers is to maintain service quality (Payne, 1995:57). The retention plan issues outlined above highlight just how important building long-term customer loyalty is within an industry such as banking. This can be achieved through the development of a strategic approach to customer retention.

#### **4.5 Summary**

Quality is a strategic weapon that banks can use to improve their competitiveness. Quality service creates the best impression to customers. Because of the implications for profitability and growth, customer retention is potentially the most powerful tool that banks can employ to gain strategic

advantage and to compete competitively in the banking industry. The more satisfied the customer, the more durable the relationship, the longer it lasts and the more money the banks stands to make from the relationship. Banks have an opportunity to build “customers for life”. By analysing their customers’ changing needs, banks could develop a range of products and services that would continue to meet customers’ needs. In chapter five, the researcher investigates how to implement total quality management (TQM) and a service quality programme to assist banks to improve their quality of service levels.



## CHAPTER FIVE

# **IMPLEMENTING TOTAL QUALITY MANAGEMENT AND A SERVICE QUALITY PROGRAMME**

### **5.1 Introduction**

In chapter four the researcher defined service quality, outlined service management principles and explained how to retain customers through improved customer loyalty. The impact these factors have on obtaining market share in the banking industry was also discussed. The aim of this chapter is to investigate the application of total quality management strategies following nine steps to improve quality. The five pillars of total quality management are defined. Then follows an analysis of the implementation of a typical service quality programme.

### **5.2 Total quality management (TQM)**

Total quality management (henceforth in this research referred to as TQM) has become a leading approach to providing customer satisfaction and organisation profitability. Organisations need to understand customers' quality perceptions and expectations and attempt to provide better consumer quality than their competitors do. To deliver quality requires total top management and employee commitment. As such quality needs to be

measured and employees who excel by providing quality service need to be adequately rewarded.

### 5.2.1 Traditional quality control versus total quality management

Hellriegel and Slocum (1996:657) compared traditional quality control and TQM as follows:

- **Traditional quality control:** Relies mainly on product inspection during or at the end of the transformation process. The focus is on corrective controls; that means fixing mistakes after they have occurred rather than making the product right the first time. A particular department such as a quality control department or, a relatively small group of inspectors often gets given the responsibility for ensuring traditional quality.
- **Total quality management (TQM):** Becomes an organisation's philosophy and strategy thus making quality the responsibility of all employees. Organisations pursue TQM through various preventive and corrective control methods that are intended to ensure customer satisfaction. TQM involves building in quality: from product planning to design, from design evaluation to reproduction and from purchasing to sales and service. The TQM strategy gives quality, rather than short-term profits, top priority. The only constraints are economic feasibility and competitiveness. Table 5.1 summarises the principal differences between traditional quality control and total quality management.

**Table 5.1 Traditional quality versus TQM**

<b>TRADITIONAL QUALITY CONTROL</b>	<b>TOTAL QUALITY MANAGEMENT</b>
<b>Screen for quality.</b>	<b>Plan for quality.</b>
Quality control department responsible for quality.	Quality is everybody's responsibility.
Some mistakes are inevitable.	Strive for zero defects.
Quality means inspection.	Quality means to conform to requirements to meet / exceed customers' expectations.
Scrap, rework are the major costs of poor quality.	Scrap, rework are only a small part of the costs of nonconformance.
Quality is a tactical issue	Quality is a strategic issue

**Source: Adapted from Hellriegel and Slocum (1996:657)**

### **5.2.2 Deming's philosophy of TQM**

Dr. W.E. Deming is considered by many as the father of TQM. According to Clauson (1999) Deming was best known for his work in Japan, where from 1950 onwards he taught top management using engineering methods to manage quality. Deming's teaching dramatically altered the economy of Japan and profoundly impacted on the American manufacturing and service organisations. Deming believed that poor quality is 85 percent a management problem and 15 percent a worker problem.

Deming's recommendations for total quality management are outlined below:

- Organisations need to adopt a philosophy of quality.

- Organisations should accept the doctrine that poor quality is totally unacceptable. Defective materials, bad workmanship, poor products and bad service should *not* be tolerated.
- Organisations should gather statistical evidence of quality problems experienced. The earlier an error is detected the lower the cost of correction. Organisations should cease depending on inspection to achieve quality and rather eliminate the need for inspection on a mass basis by building quality into the product in the first place.
- Organisations need to rely on suppliers that have historically provided quality. Instead of using many suppliers, organisations should select and stay with a few suppliers who furnish consistent quality. Furthermore organisations should establish long-term relationships with suppliers and stop awarding contracts to suppliers merely on the basis of price.
- Within the training and education of employees, organisations need to emphasise statistical methods in their jobs and to develop other skills. Eliminate slogans, targets for the work force, asking for zero defects and new levels of productivity. These exhortations only create adversarial relationships, as the bulk of the causes of low quality and low productivity belong to the system and thus lie beyond the power of the work force.
- Employees should be encouraged to report any conditions that detract from quality. Organisations need to drive out fear that employees may work effectively. Eliminate work quotas in the work place, management by

objective, management by numbers, numerical goals and substitute leadership. Remove barriers that refuse the hourly worker of his right to pride of workmanship. The responsibility of supervisors must be changed from checking numbers to checking quality.

- Management should introduce statistical methods to assist employees to do their work better and not continue to enforce rigid production standards. Statistical techniques detect sources of poor quality. Teams of designers, managers and employees can then eliminate these poor quality sources. This can be achieved by breaking down barriers between departments.
- Organisations should constantly create a purpose toward improvement of product and service, with the aim of becoming competitive, staying in business, and to providing employment (Clauson, 1999).

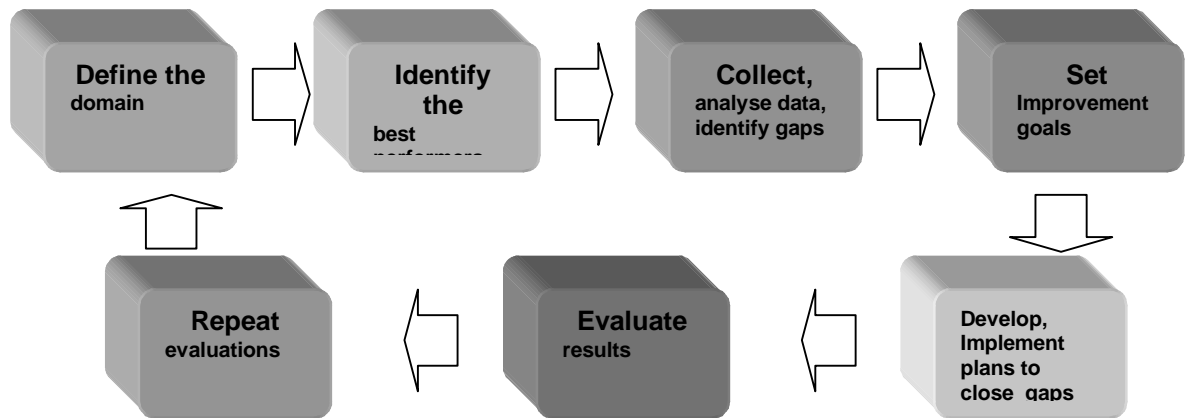
### 5.2.3 A nine step approach to quality improvement

Nine steps can be followed towards: total quality management (Kotler & Armstrong, 1996:586):

- **Step 1 - quality through the eyes of the customer:** Quality commences with customer needs and ends with customer satisfaction. If the product or service does not perform the way the customer expects, it can be regarded as a defect. The fundamental aim towards the end of the 1990s is towards total customer satisfaction. Quality improvements are meaningful only if perceived as such by customers.

- **Step 2 - quality must be reflected in both the product and through every organisational activity:** The concern for quality must be evident in the product service, advertising, product literature, marketing delivery and sales support.
- **Step 3 - quality requires total employee commitment:** Quality can only be delivered by organisations where all employees are committed to quality. Employees must therefore be motivated and trained to deliver quality. Successful organisations remove the barriers between departments encouraging employees to work as teams to create results. Employees work towards internal and external customer satisfaction.
- **Step 4 - quality requires high-quality partnerships:** Quality can be delivered only by organisations whose value-chain partners also deliver quality. A quality driven organisation must strive to align itself with high quality suppliers and distributors.
- **Step 5 - a quality program cannot save a poor product:** An excellent quality program and marketing drive cannot compensate for product or service deficiencies.
- **Step 6 - quality can always be improved:** In item 3.3.1.1 the researcher explained the concept of “Kaizen” which is continuously improve everything by everyone. Another way to improve quality is to benchmark the organisation’s performance, against the “best-of-class” competitors or performers in the industry. The aim is to equal or even exceed competitors. The benchmark process is depicted in Figure 5.1 on the following page.

**Figure 5.1 The benchmarking process**



**Source: Adapted from Hellriegel and Slocum (1996:186)**

- Step 7 - quality improvements often require quantum leaps:** Striving for continuous quality improvement is often not enough (Kotler & Armstrong, 1996:587). Quantum quality improvements may be required. Large improvements require fresh solutions and smarter work. One of Hewlett Packard's, chief executive officers' Mr. John Young, for example did not request a 10% reduction in defects, but a tenfold reduction in defects.
- Step 8 - quality does not cost more:** Management often argues that to achieve more quality would cost more and slow down processes. The ideal would be to strive to improve quality, "to do things right the first time". Quality cannot be inspected in: it needs to be designed in. Doing things right the first time reduces the costs of salvage, repairs, redesign and the loss of customer goodwill.

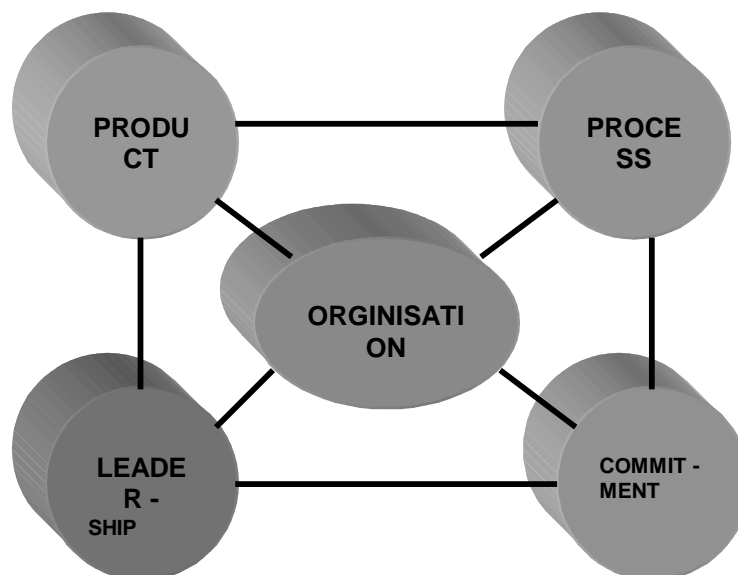
- **Step 9 - quality is necessary but may not always be sufficient:**

To improve quality it is absolutely necessary to meet the need of more demanding customers. Higher quality however, may not ensure a winning advantage, as competitors will also increase their quality to more or less the same levels. Once again the researcher wishes to highlight the real differentiation factor, this being service, how the service is conducted makes a real difference between successful and non-successful organisations.

### 5.3 The five pillars of total quality management (TQM)

From the foregoing discussion about TQM and the work of Creech (1995:528) five pillars of TQM can be defined.

**Figure 5.2 The five pillars of total quality management**



Source: Adapted from Creech (1995:7)



Figure 5.2 describes the five pillars of TQM. Creech (1995:528) is of the opinion that *product* is the focal point for organisations purpose and achievement. Quality in the *product* is impossible without quality in the *process*. Quality in the *process* is impossible without the right *organisation*. The right *organisation* is meaningless without the proper *leadership*. Strong *commitment* is the support pillar for all the rest. Each pillar depends upon the other four, and if one is weak all are weak.

The five pillars of TQM will now be analysed in more detail:

- **Pillar 1 - the organisation:** The organisation needs to establish its character and culture. It must then build a decentralised, interactive system that integrates at various levels. The organisation needs to believe in teamwork and professionalism. It must provide each team with authority over its own part of the product and so create widespread ownership. It further needs to combine authority and accountability. Every organisational level needs to get involved – from the very bottom up. The organisation can use quality to drive costs down, not savings to drive quality down. Quality begets quality, through the organisation that needs to provide the means, tools and motivation.
- **Pillar 2 - the product:** Build a group centred product mindset by defining each product in terms of the customer. Identify each product sub-element by using the product as the focal point for quality. Orientate employees to focus on the activity of the product not only their jobs. Continually assess

the organisation's strength and competitiveness in specific "niches". Ensure that the organisation is suitably matched to each of the service by paying close attention to the organisation's core business. Create a product customer linkage and ensure that every decision, every action is keyed towards customer satisfaction (Creech, 1995:529).

- **Pillar 3 - the process:** Identify who are involved in the process and create improvement processes by measurement, analysis and incentives. Measure quality and products at varied process points by using quantification benchmarks (refer to Figure 5.1) to judge processes. Furthermore amplify objectivity through broad use of data, facts and surveys by using comparisons to bring life to the data and to explain the relevance thereof.
- **Pillar 4 - the commitment:** Build strong commitment by everyone in the organisation towards superior quality and productivity. Build commitment through genuine ownership and shared success. Provide a clear stake in the outcome for everyone, share success, give priority and pay attention to the communication flow. Emphasise the dignity and the worthiness of every job and employee. Utilise recognition and reward, for individuals and teams by making involvement and ownership real through opportunities and incentives. Instil in all employees the belief that commitment from everyone determines the success of each employee and the organisation as a whole.
- **Pillar 5 - the leadership:** Place the prime leadership focuses on output not the inputs. Develop output goals with the teams directly involved and make the goals understandable, relevant, attainable and wanted. Provide ample incentives for: initiative, ingenuity, and innovation by

creating strong desires for continuous improvement in every activity.

Provide a climate of quality, which promotes pride and professionalism.

The above five pillars towards total quality management are not complicated or mysterious. They need not all be implemented at once however their implementation requires actions – not just words. The system is not difficult to implement and start with all the above principles. The very best companies world wide use these principles to beat their competitors. All who use them fruitfully reap far greater quality, productivity, and success.

#### **5.4 A recommended service quality programme**

In the next section a recommended service quality programme is outlined consisting off: Defining the importance of a service quality programme, the advance towards TQM, change as an element towards TQM, management commitment and involvement, effective measurement guidelines, measuring service quality results and communication to the customer.

##### **5.4.1 Defining the importance of a service quality programme**

Customer satisfaction and company profitability are closely linked to product and service quality (Kotler & Armstrong, 1996:583). Higher levels of quality result in greater customer satisfaction, while at the same time supporting higher

prices at lower costs. Therefore, quality improvement programs normally increase profitability. The task of improving product and service quality should be an organisation's top priority. Most customers will no longer tolerate poor or average quality, as quality programmes is an organisation's best assurance of customer loyalty and retention (refer to chapter four). Companies towards the end of the 1990s have no choice but to adopt quality concepts if they want to stay competitive, let alone be profitable. A specific quality programme becomes the strongest defence against competition, and the path to sustained growth and profits.

#### **5.4.2            The advance towards TQM**

Hellriegel and Slocum (1996:660) outline a guideline that every administrative department should consider when implementing a service quality program:

- define the major functions or services performed
- determine the internal customers and suppliers of these services
- identify the external customer's requirements, as well as quantitative measures to assess customer satisfaction with respect to these requirements
- identify the requirements and measurement criteria that must be met
- flow-chart or map the process at the macro, or interdepartmental, level and at the micro, or intradepartmental level
- continuously improve the process with respect to effectiveness, quality, cycle time and cost.

### 5.4.3 Change as an element towards TQM

According to Blem (1995:87) creating a service quality programme in an organisation usually involves a great deal of change. At least two things must occur if an organisation is to be successful in changing its ways. Firstly, somebody must show that it is possible for the organisation to change and secondly, there must be a motivating factor sufficiently powerful to ensure total commitment throughout the organisation. The new proposed service strategy needs to be explained to all employees in an explicit and effective way. Every employee must understand that service to the customer is the most important contributor to the organisation's success.

### 5.4.4 Management commitment and involvement

Blem (1995:88) indicates that all service quality and productivity programmes must have total management involvement. It is up to management to show that it can be done. The programme should be designed in such a way as to allow for measurement in order to determine progress. A reward system is required to encourage staff to achieve and follow-through to ensure the programme is being implemented. In a customer-driven culture, management itself becomes a special form of service and subject to critical evaluation of its role and effectiveness. In the past, managers left the matter of customer care to the lower staff levels. Management typically assumed that "someone" was taking proper care of the customer, unless the number of complaints began to increase;

then it was time for corrective action. Outstanding service requires focused energy. The organisational climate must be primed and management commitment and involvement ensured for a customer-care policy to take root and thrive. Management should be aware when poor service quality exists. Management should continuously acknowledge and communicate the importance of service and participate fully in word as well as in deeds.

The following pointers outline management commitment and their involvement required.

- **Altering customs and traditions:** Once the service-excellence programme is under way in the organisation and beginning to work among employees, management needs to commence to start building organisational policies that will become permanent. This can often be the most problematic stage of the whole change process because “old habits die hard”. It is common to find organisational customs, traditions, policies, systems, procedures and work rules standing in the way of new and creative service methods. Management should also be visible and consistent in their support for the new service concept by emphasising the importance of service and spreading the concept. Employees soon realise when management is merely paying lip service to the concept and will react accordingly. Managers should pay attention to reinforcing the service orientation among employees by means of encouragement, recognition and reward.
- **Management by walk-about (MBWA):** This means that managers must be in touch with employees all of the time. Managers need to encourage

the implementation of customer care, seeing where it is working and where it is not, rewarding efforts and listening to suggestions.

- **Identify, encourage and reward good work:** Management needs to take an interest in their employees, not only as employees but as people. Management must listen to employees, understand their hopes, fears, likes, dislikes and frustrations both on and off work. Taking a personal interest in people builds the bonds of trust necessary for good teamwork.
- **Constructive criticism:** Praise the worker, criticise the work. Never start criticism by pointing out the wrong facts. This places employees on the defence and defensive people do not listen. Rather begin by praising the good points and then shift to focus on the problem (Blem, 1995:89).

#### 5.4.5 Effective measurement guidelines

Blem (1995:95) outline the following as a list of points to assist an organisation in creating a performance measurement feedback system:

- commence with the organisation's service strategy
- measure the organisations service levels frequently
- ask customer related questions
- ask fair, meaningful questions
- collect group and individual data
- monitor competitor actions
- display the results to emphasises their importance
- the results must be employee friendly and believable

- ensure the results are usable and used
- reward employees who excel beyond the call of duty
- feed back to employees and follow through.

#### 5.4.6 Measuring service quality results

The most difficult part is developing a service quality programme system that tracks both the desired organisational results and the performance of departments and employees (Blem, 1995:92). The process that assists in determining *what ought to be measured* begins by testing the concept of *business feasibility*.

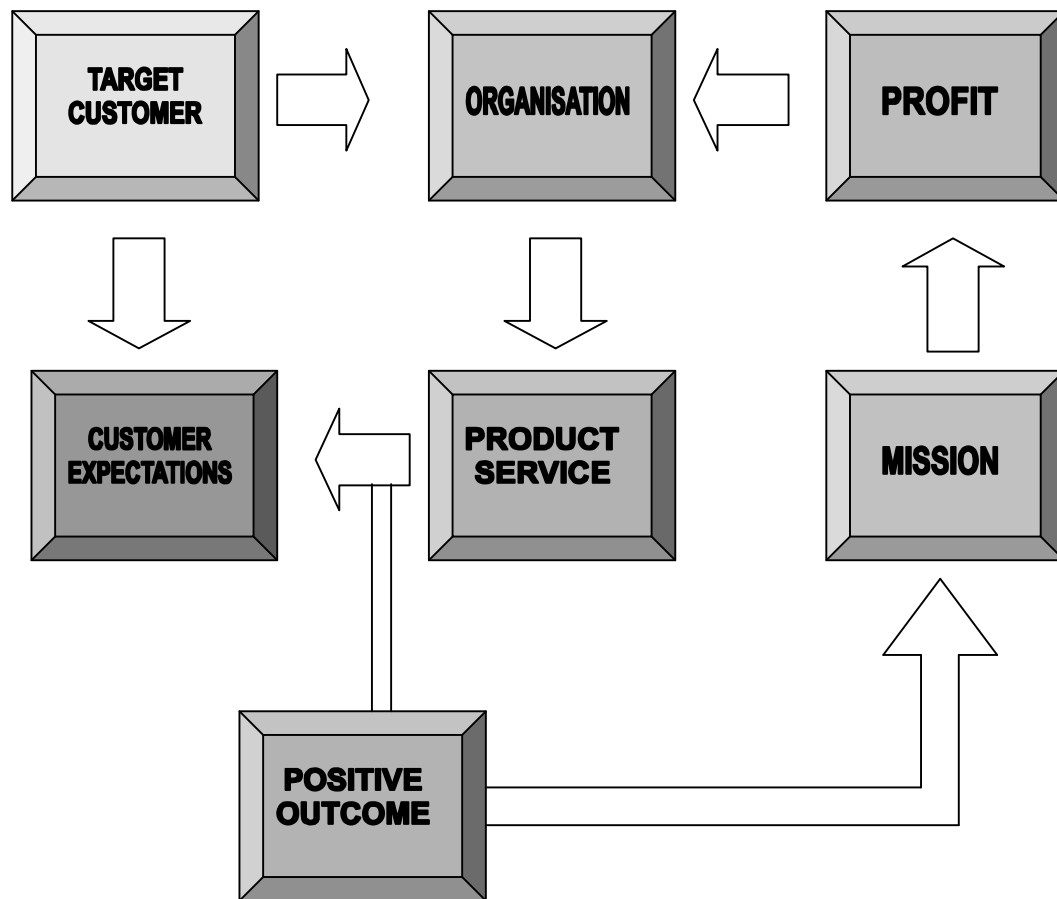
- **Business feasibility:** This is a model of what the organisation is trying to accomplish (see Figure 5.3 on the following page). It involves a series of interferences about the relationship between customer experiences and organisation outcomes. If the target customer contacts the organisation and if the product and organisation's service meet the customer's expectations, then the organisation has achieved its mission and profits will be generated.

There are however several interferences with the model in Figure 5.3 as:

- the product and the service the organisation delivers are things the customer wants to receive
- satisfied customers will return
- there is a link between staff performance and customer satisfaction
- there is a link between customer satisfaction and profit.



**Figure 5.3 The business feasibility model**



**Source: Adapted from Blem (1995:91)**

- What to measure:** The problem of measuring service quality has challenged market researchers for many years. Many evaluation techniques are qualitative in nature but they are nevertheless extremely useful and can be universally applicable to service quality and customer satisfaction. There is a range of methods to monitor performance. These practices include sales related measures, complaint measures, suggestion measures and contact evaluation.

#### 5.4.6.1 The customer satisfaction survey

Blem (1995:94) is of the opinion that there are three important types of customer satisfaction surveys:

- **Internal customer surveys:** These are carried out to test the employee's image of the organisation. It is the climate of the organisation that matters. Here employees are required to fill in survey documents on what they like or dislike about the organisation.
- **External customer surveys:** This type of survey tests external customers likes or dislikes about the organisation and its services. Measurement can also be undertaken using the following variables:
  - reliability: the ability to provide what was promised
  - assurance: the knowledge and courtesy of employees and their ability to convey trust and confidence
  - empathy: the degree of caring and individual attention given to customers
  - responsiveness: the degree of willingness to help customers and provide prompt service.
- **Tangible aspect surveys:** These include an evaluation of the firm's physical facilities and equipment. They may also include an evaluation of the appearance of personnel. These variables are ideal for general feedback only. Direct, applicable information can be obtained by talking

regularly to customers to determine what aspects of the service are making them happy or letting them down.

#### **5.4.7 Communicate to the customer**

Blem (1995:100) states that apart from improving person-to-person standards in rendering a service, there are other methods that should be considered for use in the various phases of the customer service chain, these involve:

- pre-ordering information – advertising and brochures
- customer panels – customer views
- talks at customer seminars and training at their work place
- customer and staff suggestion schemes
- customer advisors or counsellors
- instruction manuals - how to operate goods or service
- exchange visits with customers
- toll-free number, customer compliant service
- in-case-of-emergency telephone numbers.

#### **5.5 Summary**

No matter how carefully a bank designs its service package, or how hard banks work to satisfy customers in terms of service, sooner or later change will become inevitable as customers themselves continually change. Customer values, needs, wants and the way they do business changes. Customers might

appear satisfied now, but in time they will begin to notice competitor activities. Always bear in mind customers usually have various options to choose from and switching banks are fairly easy. At the same time, the competitors change continually.

Competitors launch new products with new technology and streamline their products. Somewhere out there a competitor is planning something to use to compete against their competitors. When a bank wishes to grow, a constant stream of new ideas like TQM becomes essential. In this chapter, the importance of the concept of TQM was highlighted. Banks should adapt this concept and concentrate on the following key issues:

- quality needs to be planned
- quality is everybody's responsibility in a bank
- quality is a strategic issue.

The chapter concludes with a recommended service quality programme for banks to follow outlining the key concepts of:

- management commitment and involvement
- effective measurement guidelines to measure service quality results
- the importance of customer satisfaction surveys
- communication with the customer.

In chapter six, the researcher will outline the empirical study and the research methodology utilised, to further investigate by means of a practical survey the service level in a selected bank in the Port Elizabeth metropole.



## CHAPTER SIX

### THE EMPIRICAL STUDY

#### 6.1 Introduction

*“To behold is to look beyond the fact; to go beyond the observation. Look at a world of men and women, and you are overwhelmed by what you see. Select from that mass of humanity a well-chosen few, and these observe with insight, and they will tell you more than the entire multitude together. This is the way we must learn: by sampling judiciously, by looking intently with the inward eye. Then, from these few that you behold tell us what you see to be true”* Leedy (1997:189).

The objective of this chapter is to identify the underlying factors that influence the service encounter process. The study was conducted between the frontline staff and the customer, and also between fieldworkers and the customer at First National Bank outlets in the Port Elizabeth metropole. The information obtained in the empirical study may be applied in the workplace. FNB and/or other banks could possibly utilise the information as a guideline to improve customer service. The chapter describes the researcher’s survey design method, research methodology, the questionnaire construction and the data, measuring method. The sampling procedure and pilot study conclude the chapter.

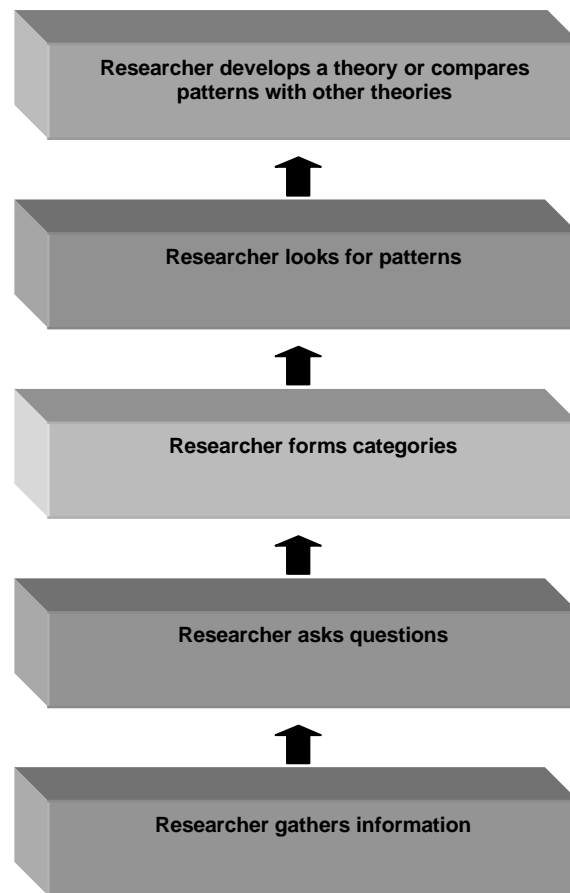
## 6.2 Survey design method

The research is an empirical study into customer service levels in FNB branch networks, in the Port Elizabeth metropole. This study was a detailed investigation, which involved data being collected over time from thirteen branches of FNB. The objective of collecting this data was to provide an analysis of the context involved. From this measurement, customer service levels in FNB in this geographical area were determined.

The study was intended to be an in-depth analysis of service in FNB, but did not comprehensively cover every aspect, as this would have made the research too broad. The study is furthermore not a comparative study and does not compare FNB with other similar banks. (Refer to item 1.5 explaining the reasons why not). The focus is, thus, primarily on the opinion of FNB's customers, while also incorporating different theoretical opinions.

In this study the primary data collection method was the questionnaire. As discussed in item 1.5, the research was aimed at exploring the customer's perceptions of FNB service levels. The researcher followed an inductive mode of research. As shown in Figure 6.1 the researcher commenced gathering information by asking questions, the collated information were placed into different categories. The researcher then looked for patterns to compare them with other past theoretical sources (refer to item 6.6).



**Figure 6.1 The inductive mode of research**

Source: Adapted from Creswell (1994:69)

### 6.3 Research methodology

The researcher adopted the following broad methodology procedures in order to promote the logical solution of the main and sub research problems as stated, in chapter one.

- **Literature survey:** Before embarking on the empirical study the researcher conducted a literature survey to place the concept of service quality and excellence into perspective. The objective of the literature survey was to develop a theoretical framework for this research and to determine an ideal service quality programme.
- **Literature specifics:** The researcher determined from the secondary sources consulted the specific requirements and difficulties of providing customer service excellence in the banking industry.
- **Empirical study:** The researcher conducted exploratory research by means of a short questionnaire, which was distributed to the FNB branch network in the Port Elizabeth metropole. The researcher intended to establish what levels of service customers were experiencing within FNB. The aim was to analyse the empirically gathered data and so determine whether there was any discrepancy between the theory and the practice of service quality in FNB.
- **Statistical analysis of data:** The researcher approached a statistician to assist him in analysing the data obtained through the questionnaire. The statistician used a computer programme called "STATISTICA" to generate basic statistics and tables for each statement of the questionnaire. The Pearson chi square distribution was applied to "prorata" compare the level of significance between the observed and expected frequencies per questionnaire statement. For the purpose of this research the significance level for the Pearson chi square p-value was at 5%. All results *below* this level were treated as significant and will therefore be discussed and

analysed in greater depth. How the statistician arrived at these calculations falls beyond this research. In chapter seven the results of the questionnaire will be analysed. This starts with an explanation of the statement followed by a diagram outlining the observed frequency percentages per language group and SBU (to be explained in detail in item 6.5.1). This is concluded by a brief discussion quoting the observed p-values.

- **Development of an integrated proposal:** The results of the secondary source survey and the empirical survey have been integrated to propose a guideline for FNB and for other banks, which strive towards service excellence to follow. The testing of the guideline falls beyond the scope of this study.
- **Conclusions and recommendations:** The results and outcomes of the statistical analysis of chapter seven will be summarised and concluded in chapter eight, outlining recommendations.

#### **6.4 Data measuring method applied**

The data obtained through the thirty-point questionnaire were measured and collated (refer to Annexure A). Respondents had to express their agreement or disagreement on a five-point preference of each statement regarding the service of FNB at a specific branch in the Port Elizabeth metropole.

## 6.5 Questionnaire construction and administration

The following factors were considered when the questionnaire was designed:

### 6.5.1 Question content

A question can either be based upon factual information or opinion. (McLaren, 1999:55). Both types of questions were used in this research.

- **Factual questions:** This type of question is easy and straightforward, as it requires objective information from the respondent. The researcher made use of the following factual questions.
  - Firstly, identifying the language group: The researcher deemed it important to identify the language group the respondent belonged to. This assisted the researcher in a language group analysis and in determining the differences in language and culture group reactions to the statements posed. The researcher identified the following language groups in the Port Elizabeth metropole: English, Afrikaans, Xhosa and Other (German, French, Japanese, to name but a few).
  - Secondly, identifying the strategic business unit (SBU) of FNB: A strategic business unit is a unit of the organisation that has a separate mission and goal. The objectives are planned independently from the company's other businesses. A strategic business unit can be a department, a division of an organisation (as is the case with FNB), a

product line within a division, or a single product or brand (Kotler & Armstrong, 1996:39). FNB deemed it important to identify respondents in terms of SBU. The researcher therefore included a factual question table on the bottom left-hand side of the questionnaire (refer to Annexure A) to incorporate FNB's request. Both the fieldworkers and the frontline officials who assisted the researcher with the questionnaire queried and then indicated the respondent's choice in terms of language and SBU factual questions. The questionnaire was then handed to the respondent to personally complete the preference questions.

The following defined the various SBU's of FNB which were included in the questionnaire:

*Personal bank:* This SBU identifies customers with personal or individual relationships with the bank.

*First commerce:* This SBU identifies customers with a business / company relationship with the bank.

*Bob bank:* This SBU identifies the mass market which mainly consists of customers with savings accounts as their major business with the bank.

*Other:* If respondents were unsure which one of the above three SBU's they belonged to, they had the option to choose "other" as a preference.

- **Opinion questions:** These questions are more complicated than factual questions. There are also many factors, which can distract the outcome of the answer, for example the respondents can be influenced by what they consider to be socially desirable. There are thirty statements on the questionnaire (refer to Annexure A) which can be regarded as opinion questions.

### **6.5.2 Question format and type**

A closed question format was used consisting of short structured statements. The respondent could choose one of five preferences ranging from *strongly disagree* to *strongly agree*.

### **6.5.3 Respondent identification**

An attempt was made to ensure that no personal or ego threatening questions were asked. The respondent completed the questionnaire anonymously. The questionnaire could only be identified by the number on the right hand bottom corner (refer to Annexure A). These numbers were included purely for the administration purposes and to identify the branch from which the questionnaire originated. Respondents could decide whether to complete the questionnaire or not, within their own time, without being influenced in any way. The fieldworkers or frontline officials only identified the language and SBU preference.

#### **6.5.4 Questionnaire sequence**

The questions were not grouped purposefully nor was any specific sequence followed. This was in order to ensure that the respondents did not become bored or lose interest when completing the questionnaire. The researcher felt that the questions aroused interest and participation as confirmed by the response rate shown in item 7.2.

#### **6.5.5 Completion of the questionnaire**

The researcher obtained written permission from FNB to conduct the survey within the FNB branch network in the Port Elizabeth metropole (Annexure B). The researcher distributed the questionnaire among the various branches. The frontline officials assisted the researcher in the bigger branches in requesting customers to complete the questionnaire. The researcher also utilised the assistance of fieldworkers in approaching customers in smaller branches for completion of the questionnaire. The population sample consisted of people who visited FNB branches in the Port Elizabeth area during July 1999. After the researcher received the completed questionnaires, the respondents' answers were recorded on a spreadsheet. This spreadsheet was handed to a statistician who facilitated the statistical analysis as outlined in item 6.3.

### 6.5.6 Covering letter which accompanied the questionnaire

In order to ensure a bigger response rate a covering letter (Annexure C) was handed to each FNB branch manager. This covering letter was from the Port Elizabeth Technikon's Faculty of Commerce and Governmental Studies and it was hoped that it increased the credibility of the research. In this letter the reasons for and importance of the research were amplified. Furthermore the researcher personally discussed the purpose of the survey with the respective branch managers prior to the study being conducted at their branches.

### 6.6 Pilot study

The aim of the pilot study was to ensure that all questions were understandable and relevant. Schnetler, Stokes, Dixon, Herbst and Geldenhuys (1989:87) outline the following steps required to conduct a pilot study:

- **Informal testing:** A draft questionnaire needs to be compiled. People who are familiar with the principles of questionnaire structure, or who are in the field being studied need to examine the questionnaire. The questionnaire needs to be adjusted, refined and revised incorporating their input.
- **Formal testing:** The revised draft questionnaire then has to be tested in the field being studied. This needs to be done formally on a small test sample which represents the test group.



The researcher first obtained various past questionnaires used in numerous institutions. The idea was to determine a trend of typical questions being asked. The researcher further approached both ABSA and FNB for their input on similar studies done in the past by these banks. Both institutions were helpful. However, ABSA later declined any further involvement (reasons outlined in item 1.5). Utilising all this collated past information, the researcher was in a position to compile a draft questionnaire. The draft questionnaire was presented to FNB for their various departments' input. The researcher's promoter and the statistician's input were also requested. Once the input was collated, the questionnaire was revised. The questionnaire was handed to fieldworkers who assisted the researcher in testing the questionnaire at a branch of FNB.

Twenty respondents who represented the pilot study then formally answered the questionnaire. They all completed the entire questionnaire. The general feedback from these respondents was positive. They had no problems in understanding the questions. The pilot study's observed frequencies were recorded on a spreadsheet and handed to a statistician who reported that the data could be quantified and subjected to a statistical analysis. After the pilot study the researcher made some minor adjustments to the questionnaire. The final questionnaire was then ready for printing and distribution.

## 6.7 Validity and reliability

Validity and reliability are terms encountered repeatedly throughout the research. According to Leedy (1997:32) the integrity of the research depends on the validity and reliability of the study. The concepts will briefly be discussed.

- **Validity:** is concerned with the soundness, the effectiveness of the measuring instrument. Validity raise questions such as:
  - What does the test measure?
  - Does it measure what it is supposed to measure?
  - How accurately and comprehensive does it measure?

Validity therefore looks at the end result of measurement. The principal question remains. Is the researcher measuring what he/she thinks they are measuring?

There are six types of validity methods, states Leedy (1997:33). The researcher attempted to apply these methods to this study.

- **Face validity:** This refers to a subjective validity. The questions are scrutinised to establish the relation to the subject under discussion. Face validity refers to whether the questions are appropriate.
- **Criterion validity:** Validity is determined by relating a performance measure to another measure that may be set as a standard against which to measure results.

- **Content validity:** This is related to face validity and is where the accuracy of the instrument in measuring the factors of concern to the study is gauged.
  - **Construct validity:** This is the degree to which the content of the study is measured by the questionnaire.
  - **Internal validity:** This is the freedom from bias in formulating conclusions based on the data received.
  - **External validity:** This is the degree to which the conclusions reached in the study may be generalised.
- 
- **Reliability:** Is concerned with the consistency of measures. The greater the consistency in the results, the greater the reliability of the measuring procedure. This means that apart from delivering accurate results the measuring instrument must deliver similar results consistently. The researcher is of opinion that this study would be able to deliver similar results if repeated.

The researcher included the above as a brief theoretical discussion. The testing of the validity and reliability of this survey falls beyond the scope of this study.

## 6.8 Summary

In this chapter the research methodology, and in particular the data measuring method and questionnaire development were explained. The purpose of the survey questionnaire was to contribute with information to the organisation studied and to test customers' perceptions of service provided by FNB. The questionnaire was not just aimed at finding a few key problematic service concerns, but rather to paint a broad picture of the service issues at stake. From the findings improvements could be made through making recommendations and outlining proposed directions FNB or other banks could consider. In chapter seven the findings will be discussed and the results of the empirical study will be presented and analysed.

## CHAPTER SEVEN

### THE ANALYSIS AND INTERPRETATION OF THE EMPIRICAL STUDY

#### 7.1 Introduction

In chapter six the research methodology was discussed and the questionnaire design, construction and administration analysed. The chapter concluded with the pilot study, which proved to be successful. The aim of this chapter is to analyse and interpret the results of the empirical study. The outcome of each statement is presented, followed by an interpretation relating to the theoretical framework outlined in chapters two to five.

#### 7.2 Response Rate

A total of a thousand questionnaires were distributed between thirteen First National Bank branches in the Port Elizabeth metropole. The number of questionnaires distributed per branch was as follows: bigger branches 100; medium branches 70; small agencies 50. The frontline staff assisted the researcher at the bigger branches and fieldworkers assisted at the smaller outlets. Customers were approached on a random basis to complete the questionnaire. The survey commenced on 5 July 1999 and ended on 28 July 1999. A total of 574 questionnaires were returned for analysis. This represents a response rate of 57,4%.

### 7.3 Outcome of the statements and analysis of results

The aim of statement **one** was to analyse respondents' perceptions about staff being trained and knowledgeable. Diagram 7.1 shows the agreement with statement one in terms of language as well as SBU distribution.

Diagram 7.1

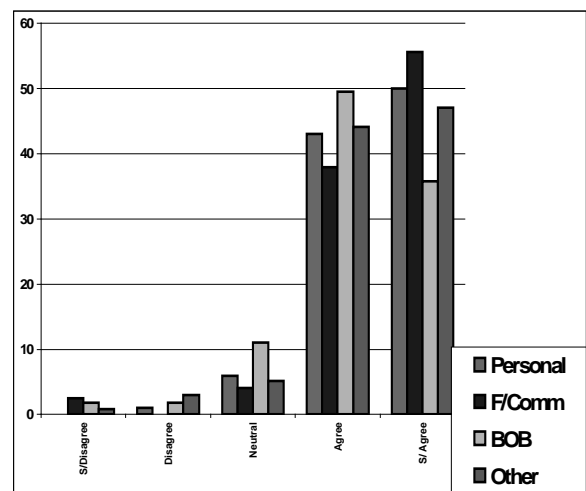
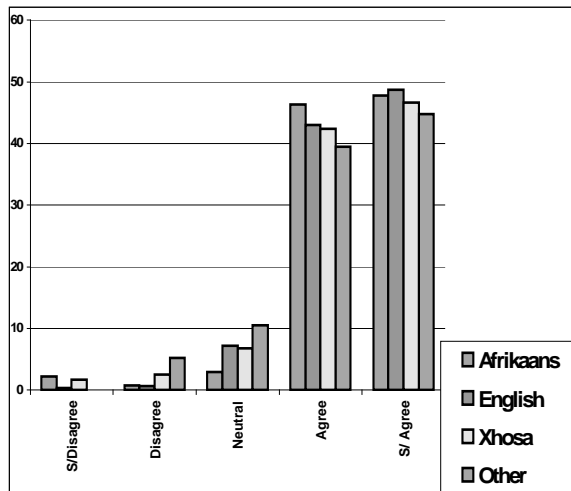
#### Statement 1: The frontline staff is well trained and knowledgeable

##### Language frequency percentages

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	2.21	0.36	1.69	0
Disagree	0.74	0.72	2.54	5.26
Neutral	2.94	7.17	6.78	10.53
Agree	46.32	43.01	42.37	39.47
S/ Agree	47.79	48.75	46.61	44.74

##### SBU frequency percentages

Preference	Personal	F/Comm	BOB	Other
S/Disagree	0	2.42	1.83	0.74
Disagree	0.99	0	1.83	2.94
Neutral	5.94	4.03	11.01	5.15
Agree	43.07	37.9	49.54	44.12
S/ Agree	50	55.65	35.78	47.06



- **Language frequency results:** The Pearson chi square distribution p-value equals 0,249236. Most respondents either *strongly agree* or *agree* with the

statement posed irrespective of language group. The results portray a professional and positive image of the bank.

- **SBU frequency results:** The Pearson chi square distribution p-value equals 0,041735 which reflects a significant difference in how respondents' perceive the training and knowledge of SBU frontline staff. Only 39 responses were observed while 52 were expected in the BOB SBU *strongly agree* preference. Even though the overall response to the *strongly agree* statement is positive, the p-value indicates that the respondents are less convinced that BOB staff are well trained and knowledgeable. FNB's BOB SBU should therefore consider placing more trained and knowledgeable frontline staff on their counters in their Port Elizabeth branches.

The objective of statement **two** was to measure the customers' perceptions about the speed and efficiency of the service received. Diagram 7.2 shows the agreement with statement two in terms of language as well as SBU distribution.

Diagram 7.2

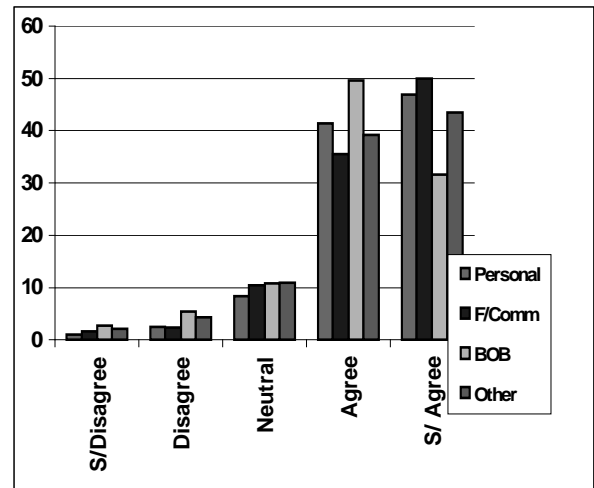
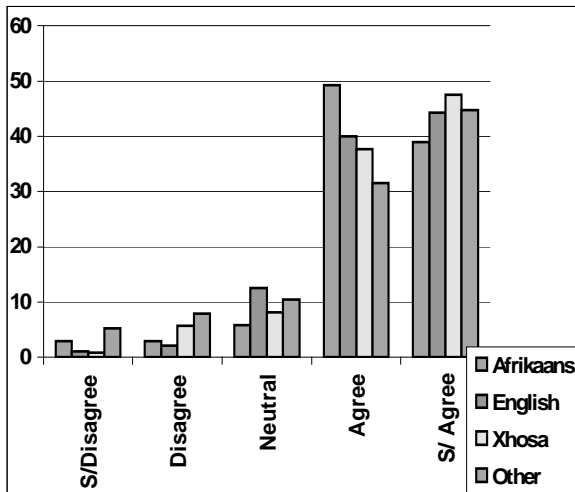
**Statement 2: Customer service is quick and efficient**

Language frequency percentages

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	2.94	1.07	0.82	5.26
Disagree	2.94	2.14	5.74	7.89
Neutral	5.88	12.5	8.2	10.53
Agree	49.26	40	37.7	31.58
S/ Agree	38.97	44.29	47.54	44.74

SBU frequency percentages

Preference	Personal	F/Comm	BOB	Other
S/Disagree	0.99	1.61	2.7	2.17
Disagree	2.46	2.42	5.41	4.35
Neutral	8.37	10.48	10.81	10.87
Agree	41.38	35.48	49.55	39.13
S/ Agree	46.8	50	31.53	43.48



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,072016 and 0,369538, respectively. Most respondents either *strongly agree* or *agree* with the statement posed. The results reflect that irrespective of language and/or SBU groups, customers regard service as quick and efficient. These findings therefore point to an excellent service measure in FNB. The results correlates well to the theory discussed in item 3.4.1 that dealt with the importance of time and speed in a competitive business environment.



The intention of statement **three** was to assess if the bank manages the customer queues in the respective banking halls well. Diagram 7.3 shows the agreement with statement three in terms of language/ SBU distribution.

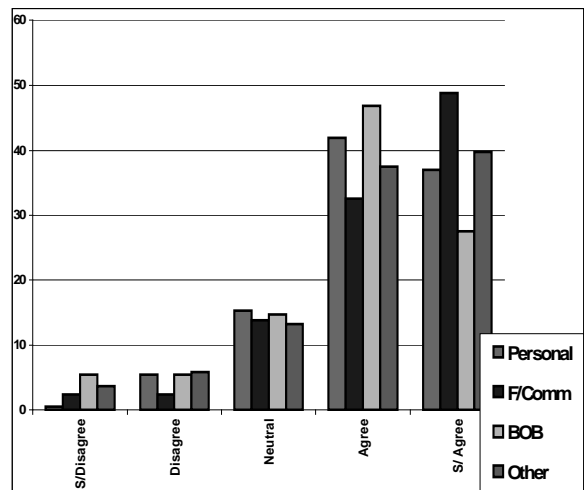
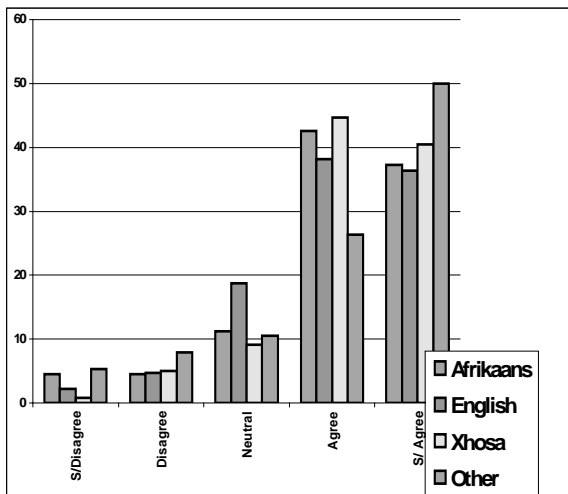
**Diagram 7.3**  
**Statement 3: Queues are well managed**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	4.48	2.16	0.83	5.26
Disagree	4.48	4.68	4.96	7.89
Neutral	11.19	18.71	9.09	10.53
Agree	42.54	38.13	44.63	26.32
S/ Agree	37.31	36.33	40.5	50

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	0.49	2.44	5.5	3.68
Disagree	5.42	2.44	5.5	5.88
Neutral	15.27	13.82	14.68	13.24
Agree	41.87	32.52	46.79	37.5
S/ Agree	36.95	48.78	27.52	39.71



- **Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,139140 and 0,064123, respectively. Most respondents either *strongly agree* or *agree* with the statement posed. The

results indicate that irrespective of language and/or SBU group, FNB is perceived to manage queues well in their banking halls. This findings can be utilised by FNB to obtain a competitive advantage over their competitors, as suggested in chapter two.

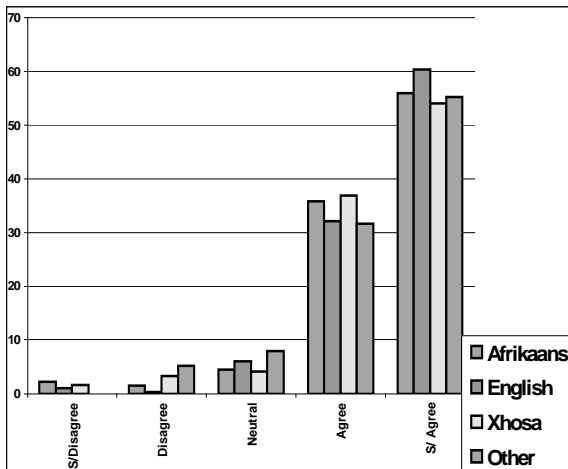
The aim of statement **four** was to analyse if customers experience the bank staff as being consistently courteous and friendly. Diagram 7.4 shows the agreement with statement four in terms of language as well as SBU distribution.

Diagram 7.4

**Statement 4: The staff are consistently courteous and friendly**

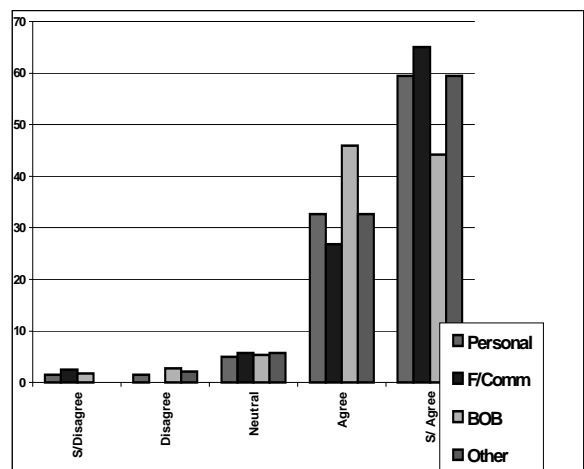
Language frequency percentages

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	2.24	1.07	1.64	0
Disagree	1.49	0.36	3.28	5.26
Neutral	4.48	6.07	4.1	7.89
Agree	35.82	32.14	36.89	31.58
S/ Agree	55.97	60.36	54.1	55.26



SBU frequency percentages

Preference	Personal	F/Comm	BOB	Other
S/Disagree	1.49	2.44	1.8	0
Disagree	1.49	0	2.7	2.17
Neutral	4.95	5.69	5.41	5.8
Agree	32.67	26.83	45.95	32.61
S/ Agree	59.41	65.04	44.14	59.42



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,409661 and 0,118580, respectively. More than 50% of the respondents *strongly agree* with the statement posed. The result shows that irrespective of language and/or SBU group the bank staff is perceived to be consistently courteous and friendly. This confirms the importance of staff needing to portray a positive attitude (item 3.6.1) as a step towards quality customer service.

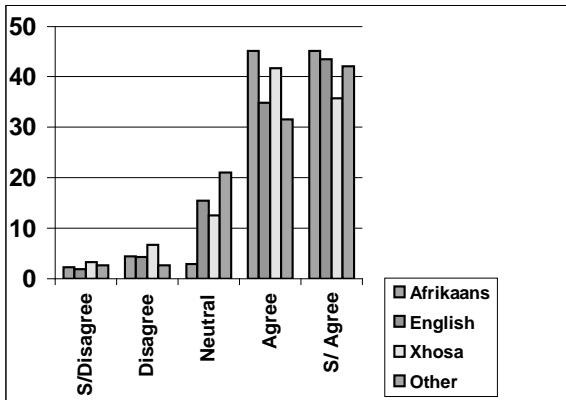
The aim of statement **five** was to analyse if customers feel safe when visiting the branches of FNB in the Port Elizabeth metropole. Diagram 7.5 shows the agreement with statement five in terms of language as well as SBU distribution.

**Diagram 7.5**

**Statement 5: I feel safe when I visit this bank**

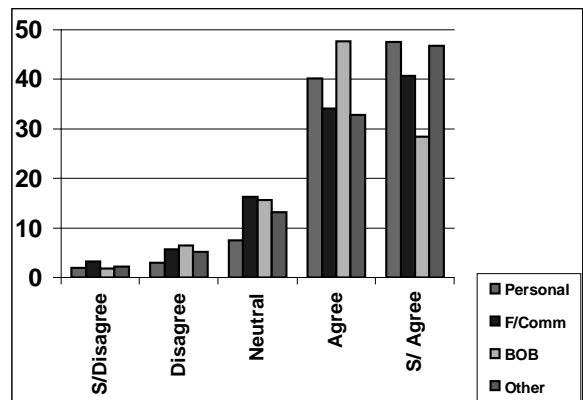
**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	2.22	1.8	3.33	2.63
Disagree	4.44	4.32	6.67	2.63
Neutral	2.96	15.47	12.5	21.05
Agree	45.19	34.89	41.67	31.58
S/ Agree	45.19	43.53	35.83	42.11



**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	1.98	3.25	1.83	2.19
Disagree	2.97	5.69	6.42	5.11
Neutral	7.43	16.26	15.6	13.14
Agree	40.1	34.15	47.71	32.85
S/ Agree	47.52	40.65	28.44	46.72



- **Language frequency results:** The Pearson chi square distribution p-value equals, 0,044620 which reflects a significant difference in how respondents' feel about their safety when visiting the bank. Only 4 responses were observed while 17 were expected in the Afrikaans language *neutral* preference. The p-value indicates that the Afrikaans respondents feel to a lesser degree *neutral* than the other language groups in terms of their safety when visiting the bank. However, the respondents mostly *agree* and *strongly agree* with the statement posed. This positive result is pleasing for FNB as customer safety in the South African crime-ridden environment should be of utmost importance to any bank. A positive feeling towards "being safe" when visiting the bank will ensure that customers return (refer to item 3.6.5).
- **SBU frequency results:** The Pearson chi square distribution p-value equals 0,054363 which is just above the significant difference for respondents' perception of their safety when visiting the bank. FNB's BOB SBU should also consider promoting customer safety more strongly as done by the other SBU's.

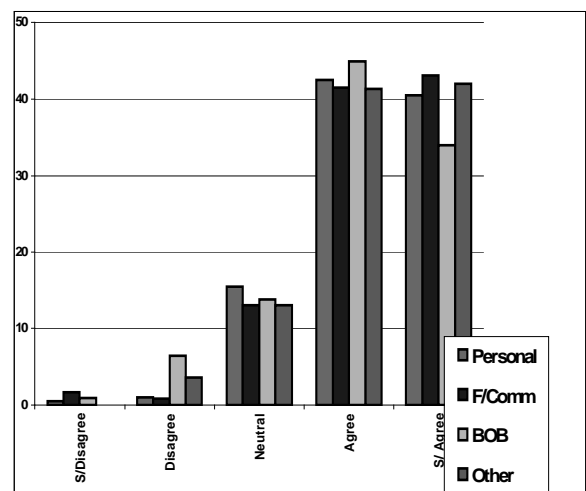
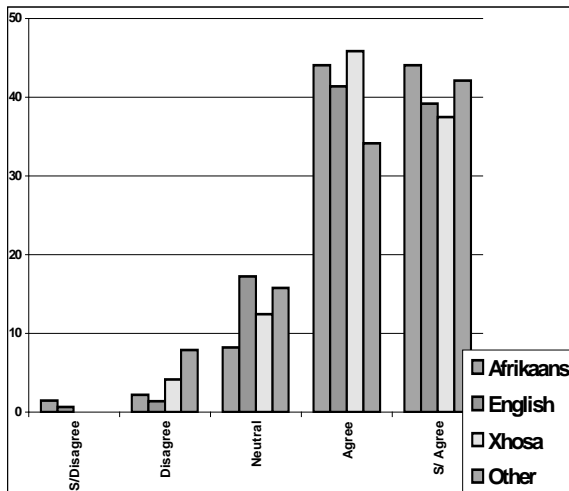
The goal of statement **six** was to determine whether staff understands the needs of their customers. Diagram 7.6 shows the agreement with statement six in terms of language as well as SBU distribution.

**Diagram 7.6****Statement 6: The staff understands the needs of their customers****Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	1.49	0.72	0	0
Disagree	2.24	1.44	4.17	7.89
Neutral	8.21	17.27	12.5	15.79
Agree	44.03	41.37	45.83	34.21
S/ Agree	44.03	39.21	37.5	42.11

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	0.5	1.63	0.92	0
Disagree	1	0.81	6.42	3.62
Neutral	15.5	13.01	13.76	13.04
Agree	42.5	41.46	44.95	41.3
S/ Agree	40.5	43.09	33.94	42.03



- **Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,171525 and 0,249277, respectively. Most respondents either *strongly agree* or *agree* with the statement posed.

The results show that respondents deemed staff to understand the needs of their customers. This finding is in line with the general expectations and needs of customers discussed in item 3.4.

The objective of statement **seven** was to assess whether there are enough frontline staff to serve the customers. Diagram 7.7 shows the agreement with statement seven in terms of language as well as SBU distribution.

**Diagram 7.7**

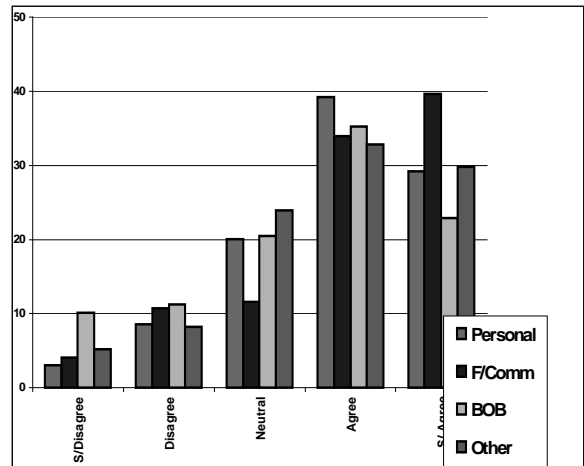
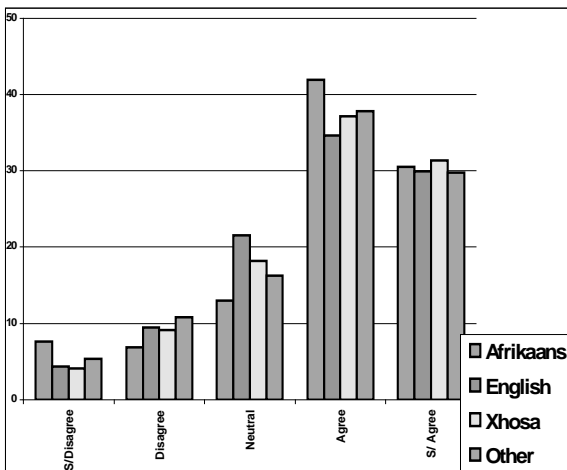
**Statement 7: There are enough frontline staff to serve the customers**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	7.63	4.38	4.13	5.41
Disagree	6.87	9.49	9.09	10.81
Neutral	12.98	21.53	18.18	16.22
Agree	41.98	34.67	37.19	37.84
S/ Agree	30.53	29.93	31.4	29.73

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	3.02	4.13	10.09	5.22
Disagree	8.54	10.74	11.26	8.22
Neutral	20.1	11.57	20.51	23.88
Agree	39.2	33.88	35.2	32.84
S/ Agree	29.15	39.67	22.94	29.85



- **Language frequency results:** The Pearson chi square distribution p-value equals 0,785759. More respondents *agree* rather than *disagree* with the statement, with irrespective of language group.
- **SBU frequency results:** The Pearson chi square distribution p-value equals 0,049330 which reflects a significant difference in how respondents' perceive the number of SBU frontline staff who serves them. A positive response was received by First Commerce SBU where 37 were expected and 48 were observed in the *strongly agree* preference. The other SBU's especially the BOB SBU should benchmark their performance, against the "best of class" (First Commerce in this instance) in the organisation as discussed in item 4.4.2.3 and item 5.2.3 and so improve their performance.

The goal of statement **eight** was to analyse whether the bank is perceived to use modern equipment and technology in its operations. Diagram 7.8 shows the agreement with statement eight in terms of language as well as SBU distribution.

**Diagram 7.8**

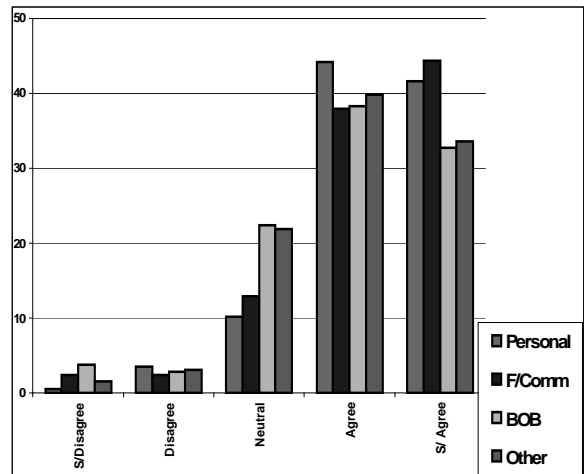
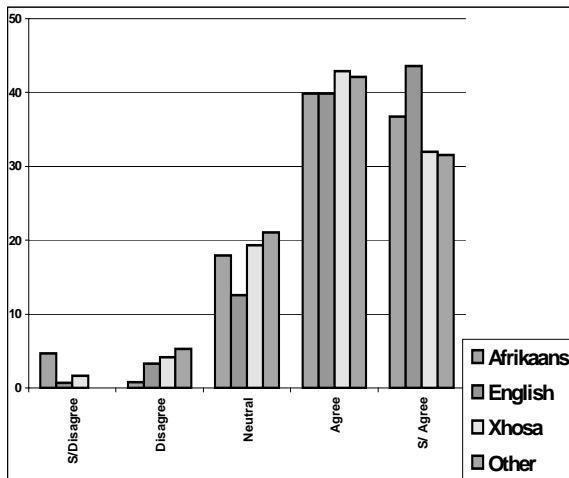
**Statement 8: This bank uses modern equipment and technology**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	4.69	0.74	1.68	0
Disagree	0.78	3.32	4.2	5.26
Neutral	17.97	12.55	19.33	21.05
Agree	39.84	39.85	42.86	42.11
S/ Agree	36.72	43.54	31.93	31.58

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	0.51	2.42	3.74	1.56
Disagree	3.55	2.42	2.8	3.13
Neutral	10.15	12.9	22.43	21.88
Agree	44.16	37.9	38.32	39.84
S/ Agree	41.62	44.35	32.71	33.59



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,080024 and 0,074867, respectively. Most respondents either *strongly agree* or *agree* with the statement posed. This therefore confirms that FNB is perceived to use modern equipment and technology. In item 2.6.4 technology was outlined as a threat of a substitute service in the banking industry. It is pleasing to see FNB using technology



as a competitive strategy to provide customer service (refer to items 4.3.1 and item 4.3.8).

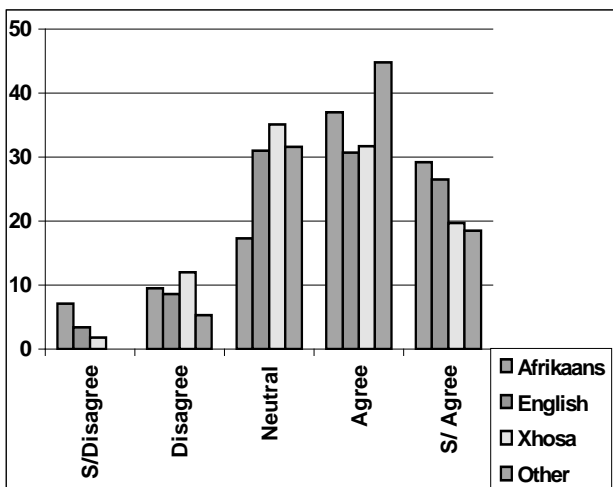
The intention of statement **nine** was to determine if customers' feel that they are constantly kept informed of new banking developments. Diagram 7.9 shows the agreement with statement nine in terms of language as well as SBU distribution.

**Diagram 7.9**

**Statement 9: Customers are constantly kept informed of new banking developments**

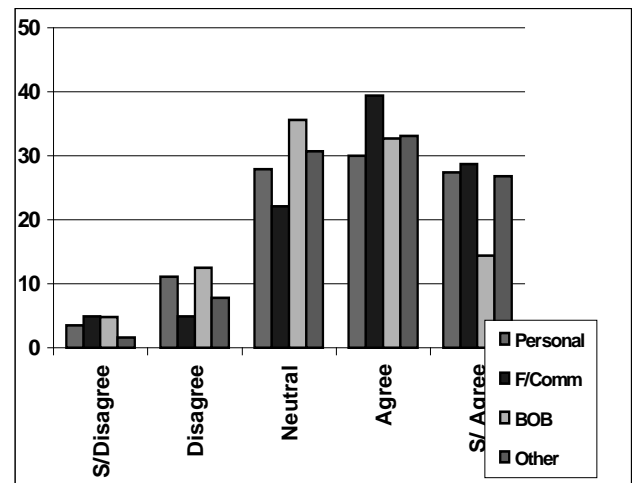
**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	7.09	3.36	1.71	0
Disagree	9.45	8.58	11.97	5.26
Neutral	17.32	30.97	35.04	31.58
Agree	37.01	30.6	31.62	44.74
S/ Agree	29.13	26.49	19.66	18.42



**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	3.55	4.92	4.81	1.57
Disagree	11.17	4.92	12.5	7.87
Neutral	27.92	22.13	35.58	30.71
Agree	29.95	39.34	32.69	33.07
S/ Agree	27.41	28.69	14.42	26.77



- **Language frequency results:** The Pearson chi square distribution p-value equals 0,034812 which reflects a significant difference in how respondents feel they are kept informed of new banking developments. Only 22 responses were observed while 36 were expected in the Afrikaans “neutral “ preference. The Afrikaans customers feel less informed than other language groups. In item 3.4.1 the researcher discussed what customers need to be informed about. For example, the bank should provide clear and regular information to ensure customers become aware of new banking developments. This can be done through constant advertising and marketing programmes.
- **SBU frequency results:** The Pearson chi square distribution p-value equals 0,092991. Most SBU respondents feel positive about being kept informed of new banking developments. However, the high *neutral* preference result should be alarming to the bank and needs to be targeted to improved upon.

The goal of statement **ten** was to determine if staff have the authority to make decisions themselves. Diagram 7.10 shows the agreement with statement ten in terms of language as well as SBU distribution.

**Diagram 7.10**

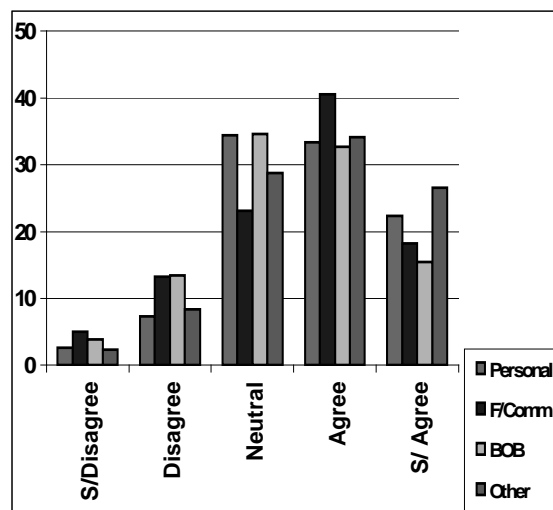
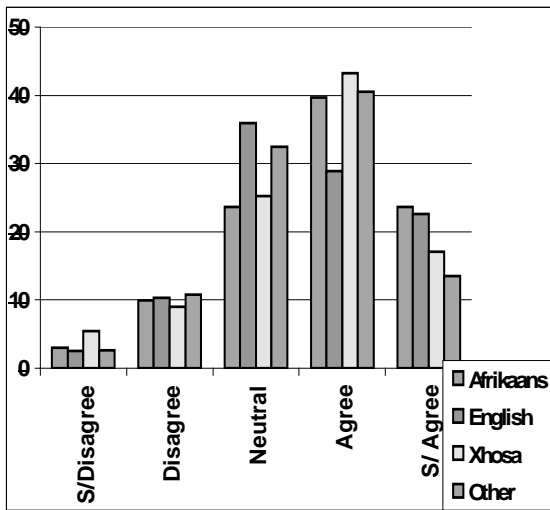
**Statement 10: Staff have enough authority to make decisions themselves**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	3.05	2.59	5.41	2.7
Disagree	9.92	10.37	9.01	10.81
Neutral	23.66	35.93	25.23	32.43
Agree	39.69	28.93	43.24	40.54
S/ Agree	23.66	22.59	17.12	13.51

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	2.6	4.96	3.85	2.27
Disagree	7.29	13.22	13.46	8.33
Neutral	34.38	23.14	34.62	28.79
Agree	33.33	40.5	32.69	34.09
S/ Agree	22.4	18.18	15.38	26.52



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,154139 and 0,223464, respectively. Most respondents feel *neutral* or *agree* with the statement posed. The result reflects the need to increase the staff’s authority to make decisions themselves. In doing so, FNB can consider adopting the five pillars of TQM outlined in chapter five. This would require the bank to believe in empowerment and teamwork that will enable staff to make decisions on their

own. The result would increase professionalism and customer service excellence.

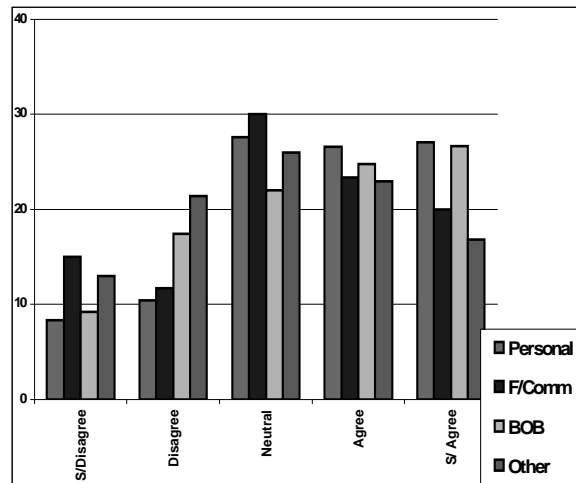
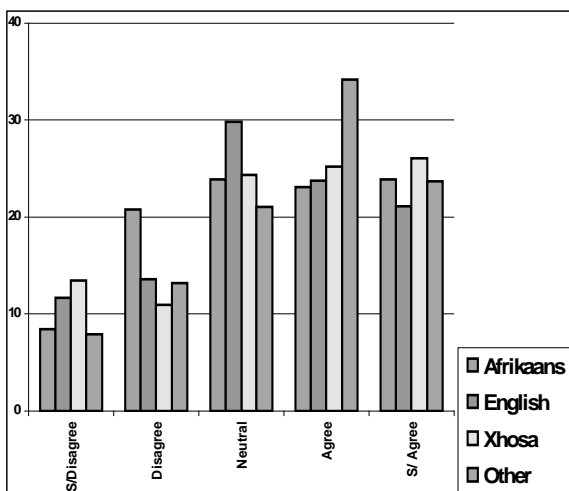
The idea of statement **eleven** was to assess if the respondents' preference in using electronic banking services, such as Internet and ATM devices. Diagram 7.11 shows the agreement with statement eleven in terms of the language as well as SBU distribution.

**Diagram 7.11**

**Statement 11: I prefer electronic banking – Internet, ATM devices**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	8.46	11.7	13.45	7.89
Disagree	20.77	13.58	10.92	13.16
Neutral	23.85	29.81	24.37	21.05
Agree	23.08	23.77	25.21	34.21
S/ Agree	23.85	21.13	26.05	23.68

Preference	Personal	F/Comm	BOB	Other
S/Disagree	8.33	15	9.17	12.98
Disagree	10.42	11.67	17.43	21.37
Neutral	27.6	30	22.02	25.95
Agree	26.56	23.33	24.77	22.9
S/ Agree	27.08	20	26.61	16.79



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,513439 and 0,1122031, respectively. There is a balanced response to the statement. This result reflects that customers do not all prefer electronic banking services. This is an area that the bank should target to market and so promote electronic banking services.

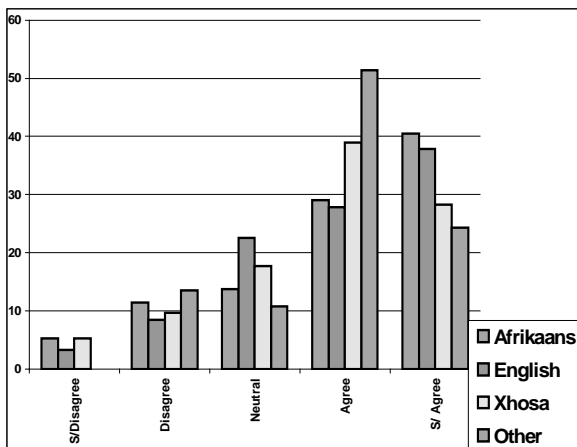
The intention of statement **twelve** was to determine if the respondents prefer conventional and human interaction banking. Diagram 7.12 shows the agreement with statement twelve in terms of language / SBU distribution.

**Diagram 7.12**

**Statement 12: I prefer conventional and human interaction banking**

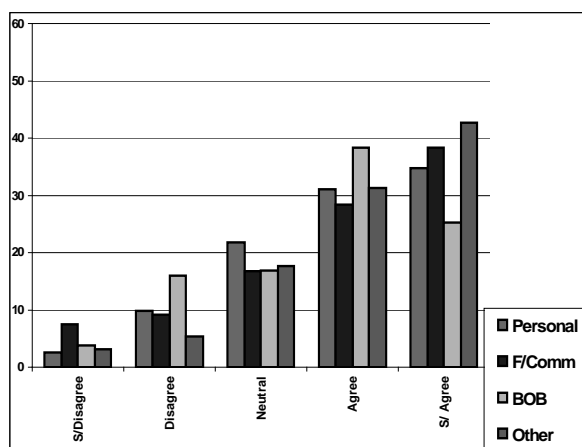
**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	5.34	3.33	5.31	0
Disagree	11.45	8.52	9.73	13.51
Neutral	13.74	22.59	17.7	10.81
Agree	29.01	27.78	38.94	51.35
S/ Agree	40.46	37.78	28.32	24.32



**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	2.59	7.5	3.74	3.05
Disagree	9.84	9.17	15.89	5.34
Neutral	21.76	16.67	16.82	17.56
Agree	31.09	28.33	38.32	31.3
S/ Agree	34.72	38.33	25.23	42.75



- **Language frequency results:** The Pearson chi square distribution p-value equals 0,042860, which reflects a significant difference in respondents' preference of conventional and human interaction banking. Only 50 responses were expected while 61 were observed in the English *neutral* preference group. The p-value indicates that the English language group are *neutral* towards the statement, which could be interpreted that they prefer electronic devices as reflected in Statement 11. The bank should therefore target English speaking customers to promote electronic devices which when successful, can be used as an example to promote electronics amongst other language groups. Electronic banking is definitely the future for banking services.
- **SBU frequency results:** The Pearson chi square distribution p-value equals 0,057361. Most respondents' either *strongly agree* or *agree* with the statement posed.

The objective of statement **thirteen** was to analyse respondents' preference for "one stop" banking. Diagram 7.13 shows the agreement with statement thirteen in terms of language as well as SBU distribution.

**Diagram 7.13**

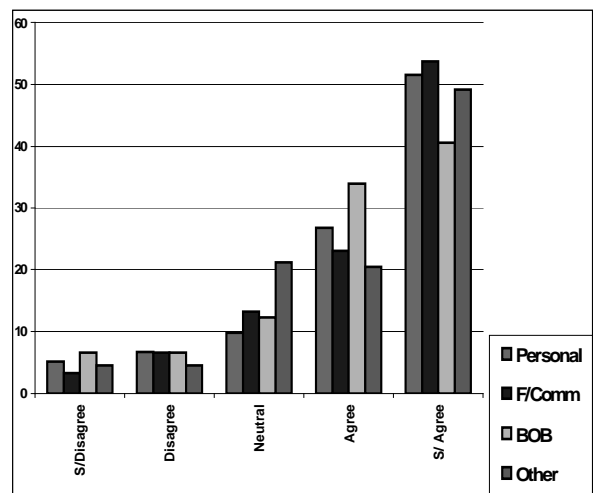
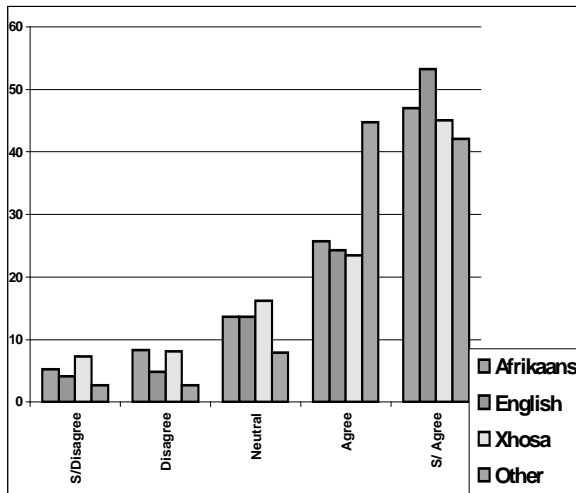
**Statement 13: I prefer one stop banking with all services at one counter**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	5.3	4.04	7.21	2.63
Disagree	8.33	4.78	8.11	2.63
Neutral	13.64	13.6	16.22	7.89
Agree	25.76	24.26	23.42	44.74
S/ Agree	46.97	53.31	45.05	42.11

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	5.15	3.31	6.6	4.55
Disagree	6.7	6.61	6.6	4.55
Neutral	9.79	13.22	12.26	21.21
Agree	26.8	23.14	33.96	20.45
S/ Agree	51.55	53.72	40.57	49.24



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,275075 and 0,160954, respectively. More than 40% of the respondents *strongly agree* or *agree* with the statement posed. The result reflects customers preference for “one stop” banking with all services at one counter, which eliminates customer frustration in having to move from one counter to another, and therefore increases customer satisfaction (refer to chapter three).

The idea of statement **fourteen** was to determine if the bank contacts their customers with courtesy telephone calls. Diagram 7.14 shows the agreement with statement fourteen in terms of language as well as SBU distribution.

**Diagram 7.14**

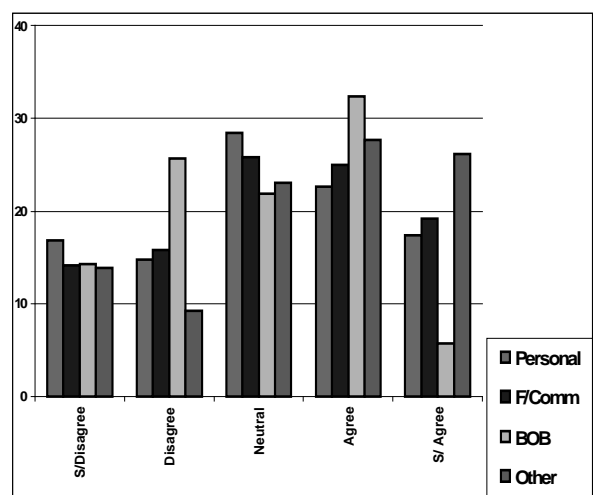
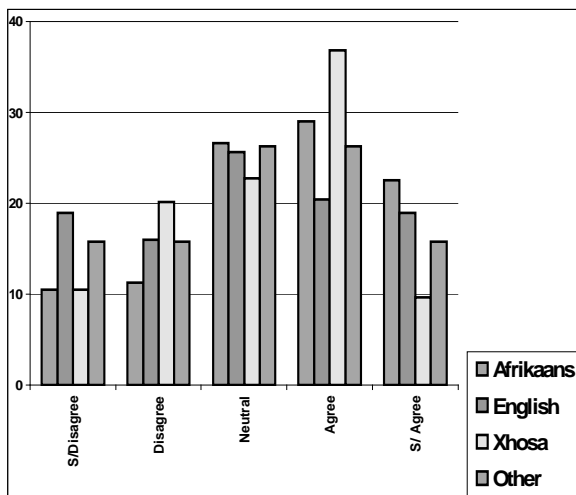
**Statement 14: My bank contacts me with courtesy telephone calls**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	10.48	18.96	10.53	15.79
Disagree	11.29	15.99	20.18	15.79
Neutral	26.61	25.65	22.81	26.32
Agree	29.03	20.45	36.84	26.32
S/ Agree	22.58	18.96	9.65	15.79

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	16.84	14.17	14.29	13.85
Disagree	14.74	15.83	25.72	9.23
Neutral	28.42	25.83	21.9	23.08
Agree	22.63	25	32.38	27.69
S/ Agree	17.37	19.17	5.71	26.15



- Language frequency results:** The Pearson chi square distribution p-value equals 0,018648 which reflects a significant difference in how respondents in the English and Xhosa language groups feel about being contacted



through courtesy telephone calls. Only 55 responses were observed while 70 were expected in the English *agree* preference. The p-value indicates that the English respondents are contacted less through courtesy calls than the other language groups. In contrast with the above the Xhosa language group indicated that they are contacted through courtesy telephone calls. (Only 29 responses were expected while 42 were observed in the *agree* preference). This indicates that the bank should ensure that all language groups are equally contacted through courtesy calls.

- **SBU frequency results:** The Pearson chi square distribution p-value equals 0,003995 which reflects a significant difference in how respondents in the BOB SBU feel about being contacted through courtesy telephone calls. Only 6 responses were observed while 18 were expected in the BOB SBU *strongly agree* preference. The p-value indicates that the BOB respondents are less contacted through courtesy calls than the other SBU groups. This confirms that FNB should ensure that all customers are equally contacted through courtesy calls on a regular basis.

The aim of statement **fifteen** was to determine if the respondents prefer quick, in and out service. Diagram 7.15 shows the agreement with statement fifteen in terms of language as well as SBU distribution.

**Diagram 7.15**

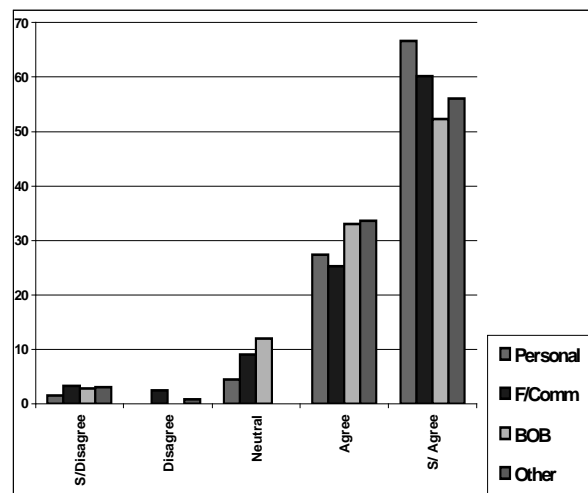
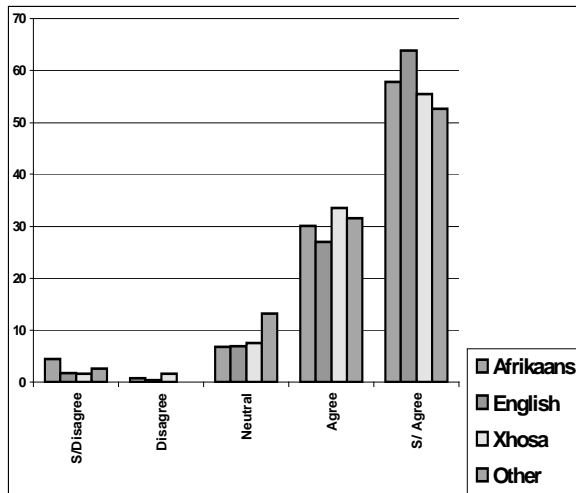
**Statement 15: I prefer quick in and out service**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	4.51	1.81	1.68	2.63
Disagree	0.75	0.36	1.68	0
Neutral	6.77	6.86	7.56	13.16
Agree	30.08	27.08	33.61	31.58
S/ Agree	57.89	63.9	55.46	52.63

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	1.49	3.25	2.75	2.99
Disagree	0	2.44	0	0.75
Neutral	4.48	8.94	11.93	6.72
Agree	27.36	25.2	33.03	33.58
S/ Agree	66.67	60.16	52.29	55.97



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,604291 and 0,072243, respectively. Most respondents' *strongly agree* with the statement posed. This confirms that the customers of the late 1990s are in a hurry and prefer quick in and out service. The response is very positive and the bank could therefore utilise their "quick service" as a competitive strategy.

The intention of statement **sixteen** was to asses if the bank offers convenient business hours. Diagram 7.16 shows the agreement with statement sixteen in terms of language as well as SBU distribution.

**Diagram 7.16**

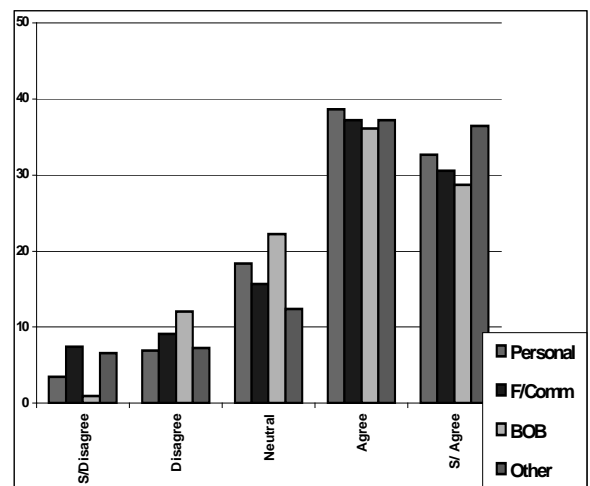
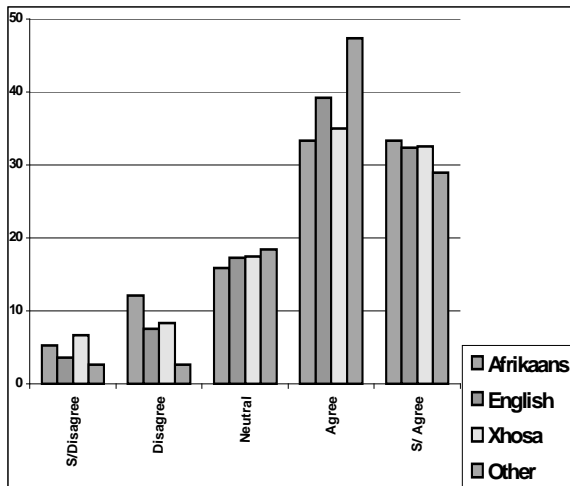
**Statement 16: The bank offers convenient business hours**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	5.3	3.6	6.67	2.63
Disagree	12.12	7.55	8.33	2.63
Neutral	15.91	17.27	17.5	18.42
Agree	33.33	39.21	35	47.37
S/ Agree	33.33	32.37	32.5	28.95

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	3.47	7.44	0.93	6.57
Disagree	6.93	9.09	12.04	7.3
Neutral	18.32	15.7	22.22	12.41
Agree	38.61	37.19	36.11	37.23
S/ Agree	32.67	30.58	28.7	36.5



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,749716 and 0,259889, respectively. Most respondents either *strongly agree* or *agree* with the statement posed. The result reflects

that customers have become accustomed to the banks' business hours.

Because of the positive response the interpretation can be

made that customers are not as concerned as in the past with convenient banking hours. It appears that they have become accustomed to electronic banking devices (ATMs, Internet) to satisfy their after hour needs as recommended in item 4.3.5.

The goal of statement **seventeen** was to determine whether the bank staff speak the customers' language. Diagram 7.17 shows the agreement with statement seventeen in terms of language as well as SBU distribution.

**Diagram 7.17**

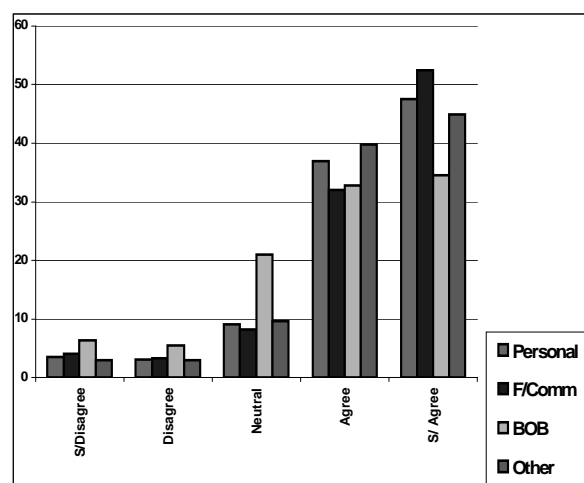
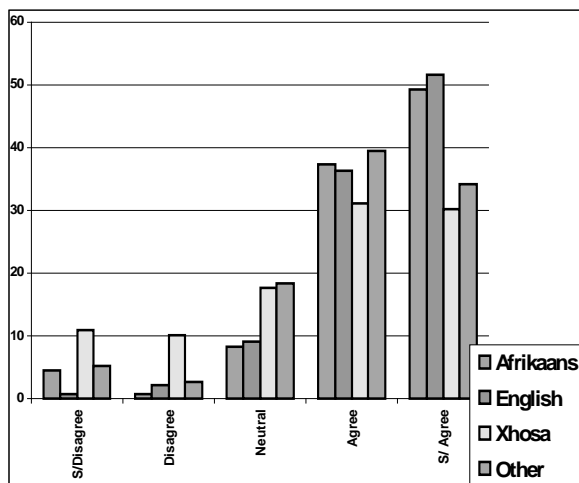
**Statement 17: The staff speaks my language or at least tries to**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	4.48	0.73	10.92	5.26
Disagree	0.75	2.18	10.08	2.63
Neutral	8.21	9.09	17.65	18.42
Agree	37.31	36.36	31.09	39.47
S/ Agree	49.25	51.64	30.25	34.21

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	3.54	4.1	6.36	2.94
Disagree	3.03	3.28	5.45	2.94
Neutral	9.09	8.2	20.91	9.56
Agree	36.87	31.97	32.73	39.71
S/ Agree	47.47	52.46	34.55	44.85



- **Language frequency results:** The Pearson chi square distribution p-value equals 0,00 which reflects a significant difference in how the respondents in the English and Xhosa language groups feel towards being spoken to in their language. A total number of 142 responses were observed while only 124 were expected in the English *strongly agree* preference. The p-value indicates that English is spoken more than the other languages. In contrast, the Xhosa language group feels that Xhosa is not spoken enough. (Only 36 responses were observed while 54 were expected in the *strongly agree* preference). This indicates that the bank should consider staff being available if and when customers wish to communicate in their own language. The availability of such a service can ensure customer loyalty, which can lead to customer retention, bigger profits and success (refer to chapter four).
- **SBU frequency results:** The Pearson chi square distribution p-value equals 0,058142. Most respondents either *strongly agree* or *agree* with the statement posed. There are however, mixed feelings, among the various SBU's which confirms that the bank should consider balancing language usage in their outlets.

The aim of statement **eighteen** was to ascertain whether the bank answers its telephones quickly. Diagram 7.18 shows the agreement with statement eighteen in terms of language as well as SBU distribution.

**Diagram 7.18**

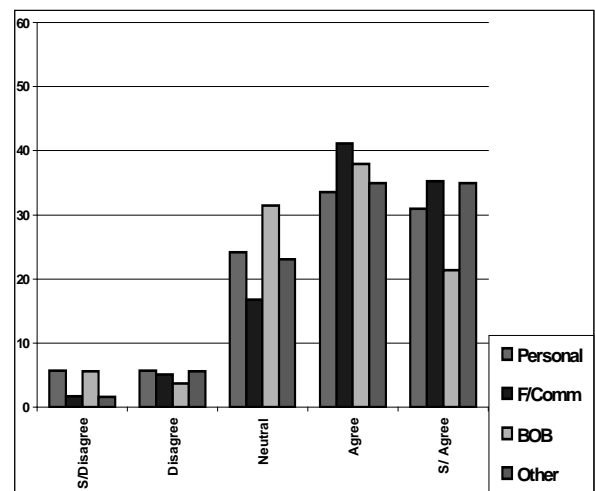
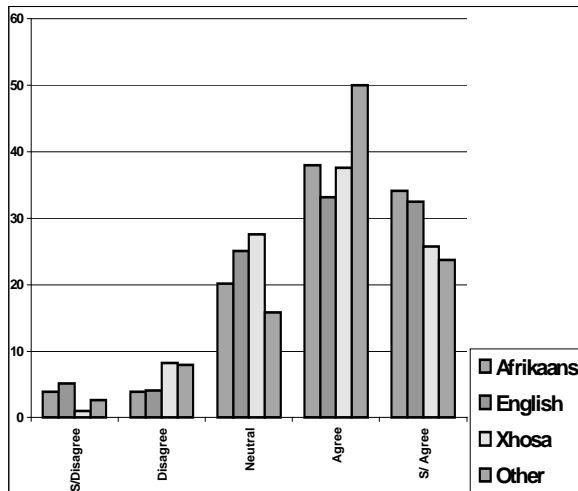
**Statement 18: The bank answers the telephone quickly when I call**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	3.88	5.17	0.92	2.63
Disagree	3.88	4.06	8.26	7.89
Neutral	20.16	25.09	27.52	15.79
Agree	37.98	33.21	37.61	50
S/ Agree	34.11	32.47	25.69	23.68

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	5.67	1.68	5.56	1.59
Disagree	5.67	5.04	3.7	5.56
Neutral	24.23	16.81	31.48	23.02
Agree	33.51	41.18	37.96	34.92
S/ Agree	30.93	35.29	21.3	34.92



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,235738 and 0,136466, respectively. Most respondents either *strongly agree* or *agree* with the statement posed. The result reflects that the bank is quick in answering its telephones, which again stresses the difference speed and efficiency can make to customer service (refer to item 3.4.1).

The aim of statement **nineteen** was to determine whether the customer reaches the right person when telephoning. Diagram 7.19 shows the agreement with statement nineteen in terms of language as well as SBU distribution.

**Diagram 7.19**

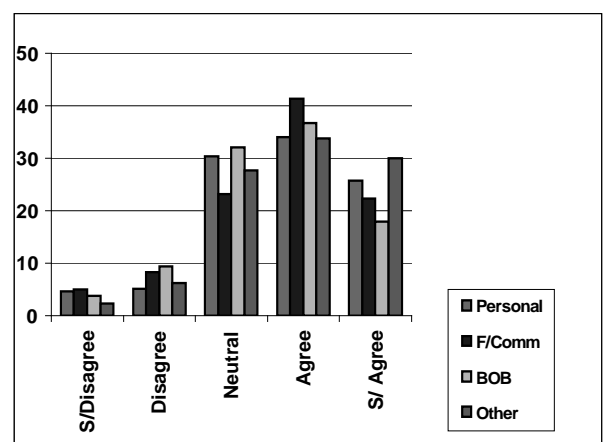
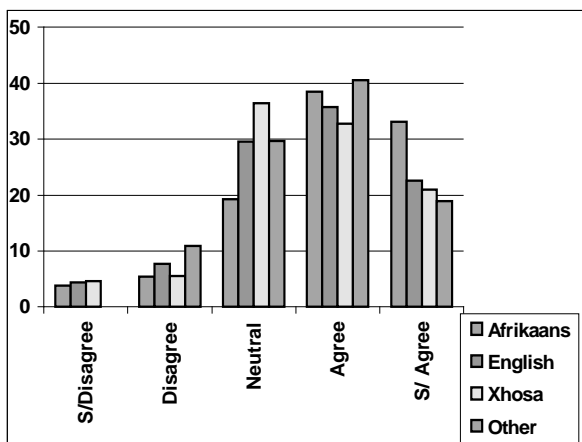
**Statement 19: I reach the right person quickly when I telephone**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	3.85	4.38	4.55	0
Disagree	5.38	7.66	5.45	10.81
Neutral	19.23	29.56	36.36	29.73
Agree	38.46	35.77	32.73	40.54
S/ Agree	33.08	22.63	20.91	18.92

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	4.64	4.96	3.77	2.31
Disagree	5.15	8.26	9.43	6.15
Neutral	30.41	23.14	32.08	27.69
Agree	34.02	41.32	36.79	33.85
S/ Agree	25.77	22.31	17.92	30



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,190011 and 0,541356, respectively. Most respondents are either *neutral* or *agree* with the statement posed. The results reflect that the respondents are not sure the right person is quickly reached when

telephoning. There is definite room for improvement and FNB should consider adopting Step 1 of item 3.6.

The aim of statement **twenty** was to assess if bank charges compare well to services offered. Diagram 7.20 shows the agreement with statement twenty in terms of language as well as SBU distribution.

**Diagram 7.20**

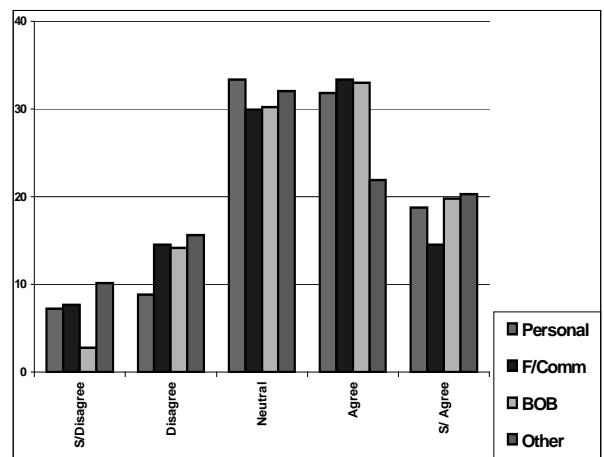
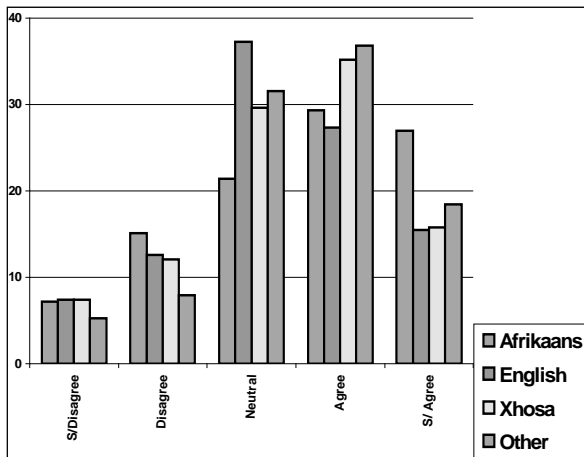
**Statement 20: Bank charges compare well to services offered**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	7.14	7.38	7.41	5.26
Disagree	15.08	12.55	12.04	7.89
Neutral	21.43	37.27	29.63	31.58
Agree	29.37	27.31	35.19	36.84
S/ Agree	26.98	15.5	15.74	18.42

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	7.29	7.69	2.83	10.16
Disagree	8.85	14.53	14.15	15.63
Neutral	33.33	29.91	30.19	32.03
Agree	31.77	33.33	33.02	21.88
S/ Agree	18.75	14.53	19.81	20.31



- **Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,133958 and 0,336437, respectively. Most respondents are



neutral or agree with the statement posed. The results reflect that the bank charges are fair in relation to the services offered,

however with definite room for improvement. The bank should consider communicating better in this regard.

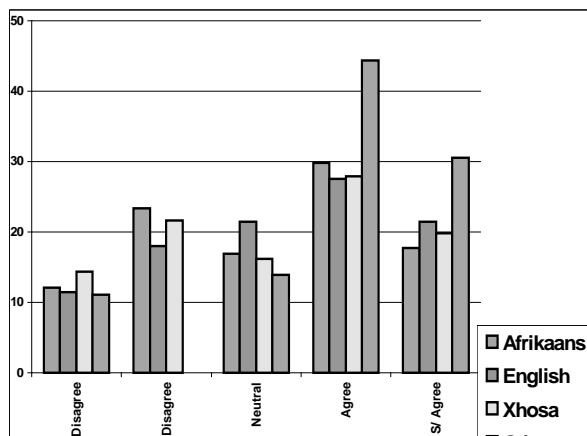
The objective of statement **twenty one** was to determine whether respondents feel that having all services at a single counter delay service rendition. Diagram 7.21 shows the agreement with statement twenty one in terms of language as well as SBU distribution.

**Diagram 7.21**

**Statement 21: Having all services at a single counter delay service rendering**

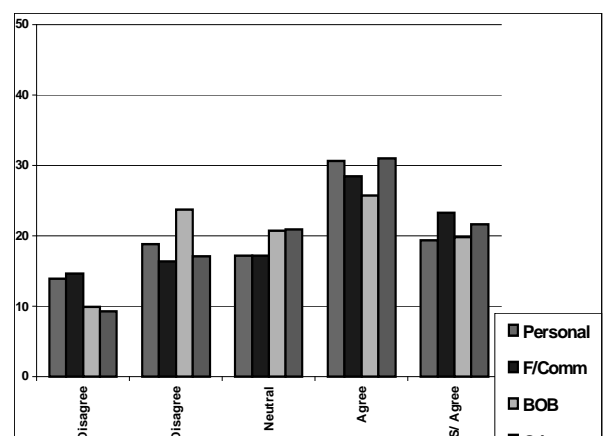
**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	12.1	11.49	14.41	11.11
Disagree	23.39	18.01	21.62	0
Neutral	16.94	21.46	16.22	13.89
Agree	29.84	27.59	27.93	44.44
S/ Agree	17.74	21.46	19.82	30.56



**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	13.98	14.66	9.9	9.3
Disagree	18.82	16.38	23.76	17.05
Neutral	17.2	17.24	20.79	20.93
Agree	30.65	28.45	25.74	31.01
S/ Agree	19.35	23.28	19.8	21.71



- **Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,156146 and 0,887043, respectively. The responses to the statement posed are fairly balanced. This reflects that there is mixed feelings about whether having all services at a single counter delays services rendition. When one compares these results with Statement 13 a contradiction becomes apparent. Customers prefer one stop banking with all services at one counter although they acknowledge that this delay service rendition. This stresses customer bargaining power (refer to item 2.6.5), which has become more demanding towards the end of the 1990s. Having all services at one counter delay service causing customer dissatisfaction. This can influence customer service and the bank should take note.

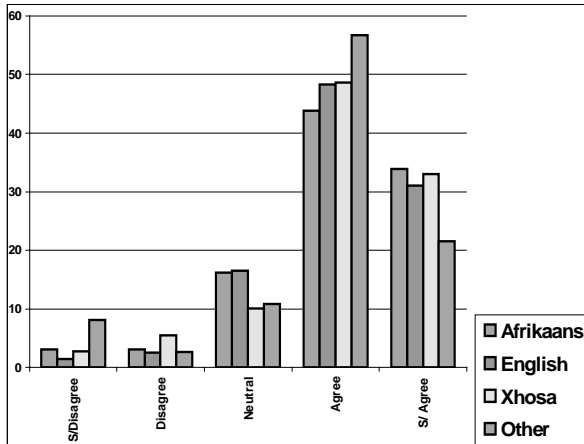
The objective of statement **twenty two** was to assess whether the bank's frontline computers are mostly on-line. Diagram 7.22 shows the agreement with statement twenty two in terms of language as well as SBU distribution.

**Diagram 7.22**

**Statement 22: Computers at the frontline counters are mostly on-line**

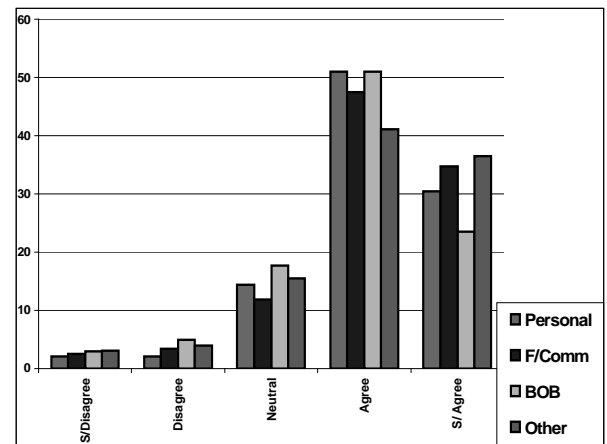
**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	3.08	1.5	2.75	8.11
Disagree	3.08	2.62	5.5	2.7
Neutral	16.15	16.48	10.09	10.81
Agree	43.85	48.31	48.62	56.76
S/ Agree	33.85	31.09	33.03	21.62



**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	2.06	2.54	2.94	3.1
Disagree	2.06	3.39	4.9	3.88
Neutral	14.43	11.86	17.65	15.5
Agree	51.03	47.46	50.98	41.09
S/ Agree	30.41	34.75	23.53	36.43



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,367888 and 0,711693, respectively. Most respondents *agree* to the statement posed. This shows that the frontline computers are mostly on-line, which increases customer service and hence reduce customer dissatisfaction.

The aim of statement **twenty three** was to analyse if the banks' ATMs are operational most of the time. Diagram 7.23 shows the agreement with statement twenty three in terms of language as well as SBU distribution

**Diagram 7.23**

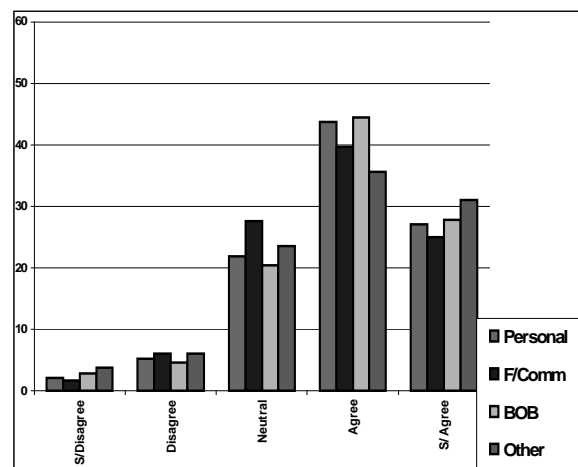
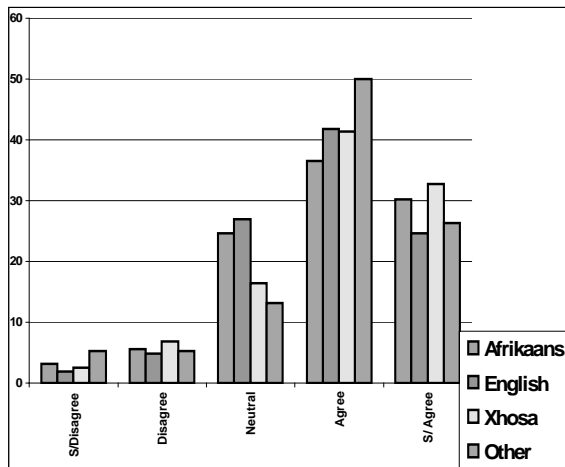
**Statement 23: ATMs work most of the time**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	3.17	1.87	2.59	5.26
Disagree	5.56	4.85	6.9	5.26
Neutral	24.6	26.87	16.38	13.16
Agree	36.51	41.79	41.38	50
S/ Agree	30.16	24.63	32.76	26.32

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	2.08	1.72	2.78	3.79
Disagree	5.21	6.03	4.63	6.06
Neutral	21.88	27.59	20.37	23.48
Agree	43.75	39.66	44.44	35.61
S/ Agree	27.08	25	27.78	31.06



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,466603 and 0,934522, respectively. Most respondents *agree* with the statement posed. This reflects that the banks' ATMs work most of the time, which indicates a satisfactory level of customer service.

The idea of statement **twenty four** was to determine the safety of the banks' ATM sites. Diagram 7.24 shows the agreement with statement twenty four in terms of language as well as SBU distribution.

**Diagram 7.24**

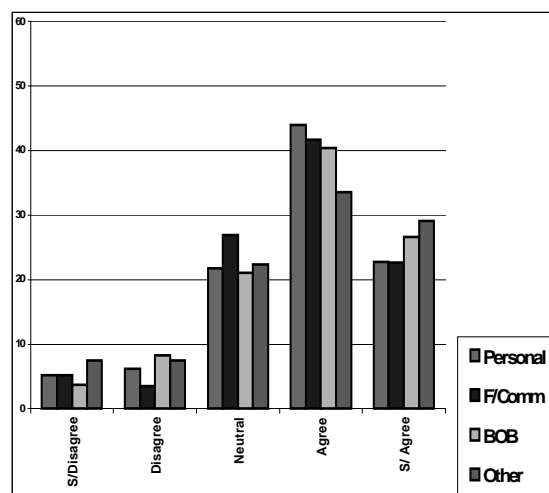
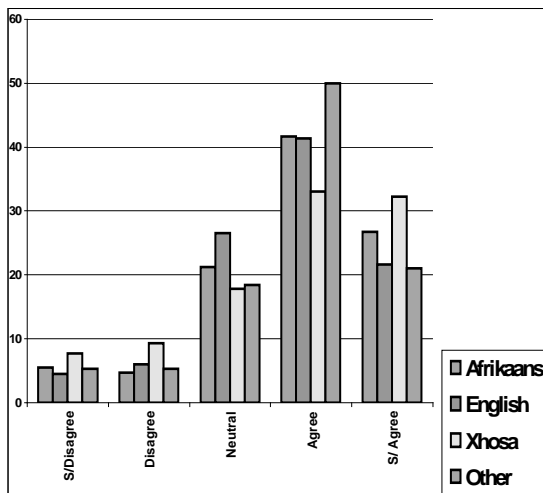
**Statement 24: This bank's ATM sites are reasonably safe**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	5.51	4.48	7.63	5.26
Disagree	4.72	5.97	9.32	5.26
Neutral	21.26	26.49	17.8	18.42
Agree	41.73	41.42	33.05	50
S/ Agree	26.77	21.64	32.2	21.05

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	5.18	5.22	3.67	7.46
Disagree	6.22	3.48	8.26	7.46
Neutral	21.76	26.96	21.1	22.39
Agree	44.04	41.74	40.37	33.58
S/ Agree	22.8	22.61	26.61	29.1



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,316539 and 0,699650, respectively. Most respondents *agree* with the statement posed. This reflects that customers feel reasonably safe at

the bank's ATM sites, which is pleasing when taking South Africa's crime-ridden environment into account. Safe ATM sites can ensure customers return, which leads to customer loyalty and retention (refer to chapter four).

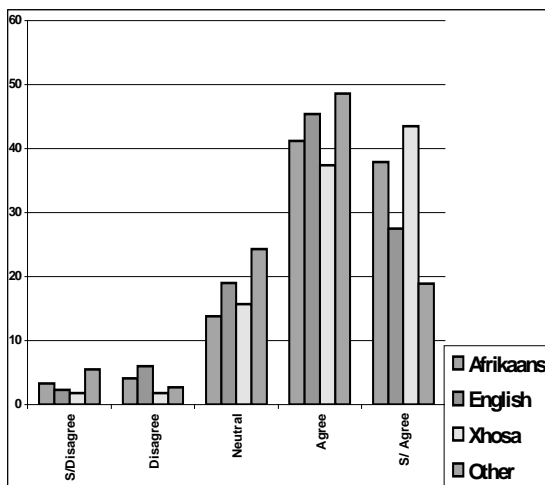
The objective of statement **twenty five** was to assess whether there are sufficient numbers of this bank's ATMs in Port Elizabeth. Diagram 7.25 shows the agreement with statement twenty five in terms of language as well as SBU distribution.

**Diagram 7.25**

**Statement 25: There are sufficient numbers of this bank's ATMs around town**

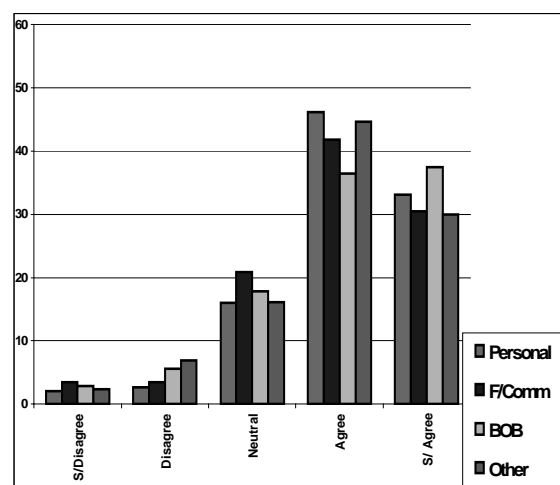
**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	3.23	2.23	1.74	5.41
Disagree	4.03	5.95	1.74	2.7
Neutral	13.71	18.96	15.65	24.32
Agree	41.13	45.35	37.39	48.65
S/ Agree	37.9	27.51	43.48	18.92



**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	2.07	3.48	2.8	2.31
Disagree	2.59	3.48	5.61	6.92
Neutral	16.06	20.87	17.76	16.15
Agree	46.11	41.74	36.45	44.62
S/ Agree	33.16	30.43	37.38	30



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,088435 and 0,749303, respectively. More than 40% of the respondents *agree* with the statement posed. This reflects that this banks' ATM representation is sufficient in Port Elizabeth, which portrays a positive image towards providing customer service.

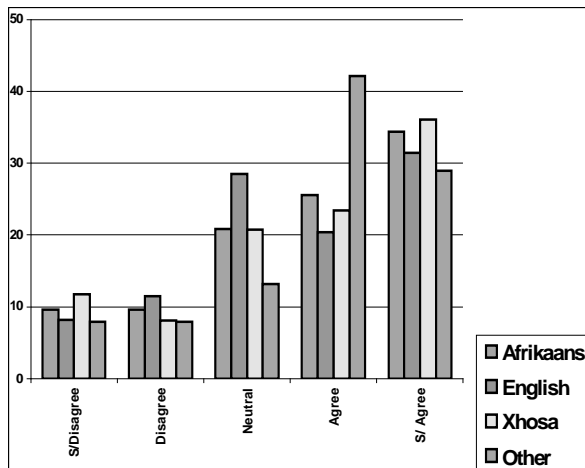
The aim of statement **twenty six** was to assess whether the uniform dress code for frontline staff is important to customers. Diagram 7.26 shows the agreement with statement twenty six in terms of language as well as SBU distribution.

**Diagram 7.26**

**Statement 26: I feel a uniform dress code for frontline staff is important**

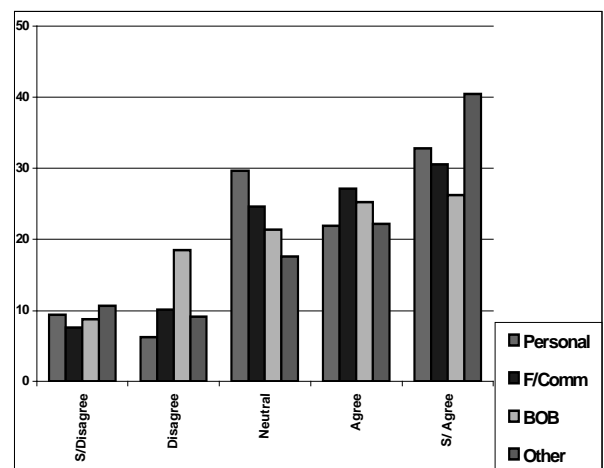
**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	9.6	8.15	11.71	7.89
Disagree	9.6	11.48	8.11	7.89
Neutral	20.8	28.52	20.72	13.16
Agree	25.6	20.37	23.42	42.11
S/ Agree	34.4	31.48	36.04	28.95



**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	9.38	7.63	8.74	10.69
Disagree	6.25	10.17	18.45	9.16
Neutral	29.69	24.58	21.36	17.56
Agree	21.88	27.12	25.24	22.14
S/ Agree	32.81	30.51	26.21	40.46



- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,233075 and 0,053263, respectively. The response to the statement is fairly balanced. The researcher is of opinion that the bank should survey the statement in greater depth to determine the reasons for customers feelings about dress code for frontline staff.

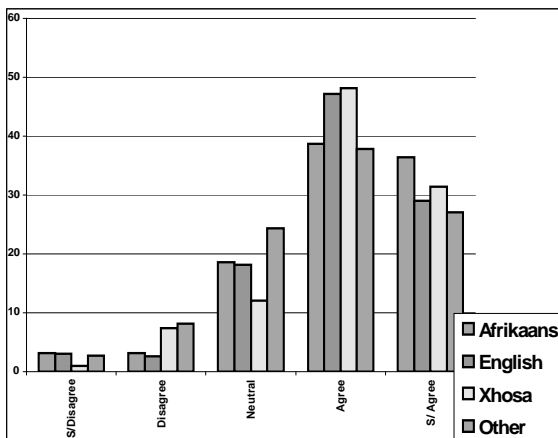
The intention of the statement **twenty seven** was to ascertain whether the banks' staff ensure that services provided are understood. Diagram 7.27 shows the agreement with statement twenty seven in terms of language as well as SBU distribution.

**Diagram 7.27**

**Statement 27: The staff ensure that I understand the service they provide**

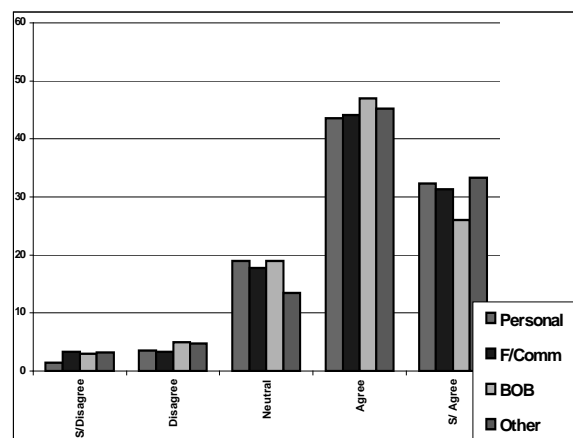
**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	3.1	3.02	0.93	2.7
Disagree	3.1	2.64	7.41	8.11
Neutral	18.6	18.11	12.04	24.32
Agree	38.76	47.17	48.15	37.84
S/ Agree	36.43	29.06	31.48	27.03



**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	1.54	3.39	3	3.17
Disagree	3.59	3.39	5	4.76
Neutral	18.97	17.8	19	13.49
Agree	43.59	44.07	47	45.24
S/ Agree	32.31	31.36	26	33.33





- Language and SBU frequency results:** The Pearson chi square distribution p-value equals 0,282597 and 0,963966, respectively. Nearly 40% of the respondents *agree* with the statement posed. This implies that staff do ensure that services provided are understood, which is in line with the steps outlined in item 3.6 towards quality customer service.

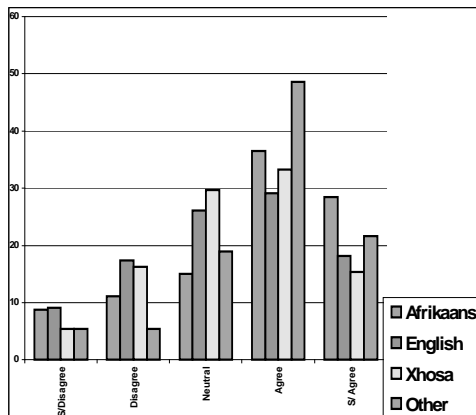
The goal of the statement **twenty eight** was to analyse whether respondents are informed beforehand about the costs of services. Diagram 7.28 shows the agreement with statement twenty eight in terms of language as well as SBU distribution.

**Diagram 7.28**

**Statement 28: I am informed beforehand how much the services are due to cost**

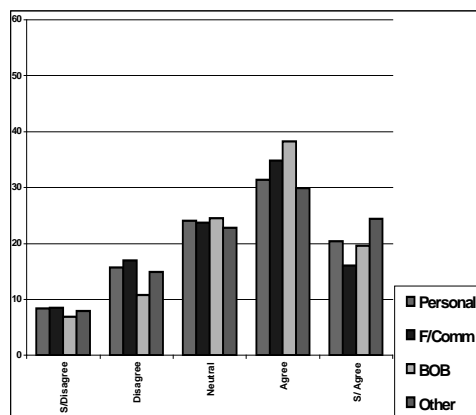
**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	8.73	9.09	5.41	5.41
Disagree	11.11	17.42	16.22	5.41
Neutral	15.08	26.14	29.73	18.92
Agree	36.51	29.17	33.33	48.65
S/ Agree	28.51	18.18	15.32	21.62



**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	8.38	8.47	6.86	7.87
Disagree	15.71	16.95	10.78	14.96
Neutral	24.08	23.73	24.51	22.83
Agree	31.41	34.75	38.24	29.92
S/ Agree	20.42	16.1	19.61	24.41



- **Language frequency results:** The Pearson chi square distribution p-value equals 0,022334 which reflects a significant difference in respondents perceptions about being informed beforehand of service costs. A total of 36 responses were observed while only 25 were expected in the Afrikaans *strongly agree* preference. The Afrikaans respondents' seems to be more satisfied about how much services costs, in comparison with the other language groups. This stresses the importance of keeping customers informed at all times. Banks should agree beforehand on how much the customer should be paying for the service (refer to item 3.4.1).
- **SBU frequency results:** The Pearson chi square distribution p-value equals 0,940685. Most respondents *agree* with this statement posed irrespective of SBU groups but there is definite room for improvement as stated above.

The objective of statement **twenty nine** was to determine whether the bank has a good reputation for excellent customer service. Diagram 7.29 shows the agreement with statement twenty nine in terms of language as well as SBU distribution.

**Diagram 7.29**

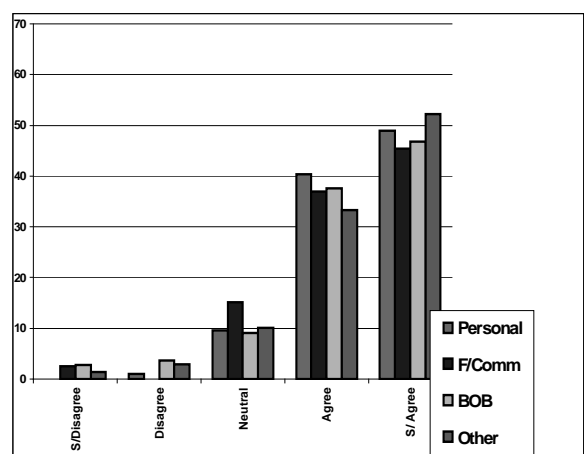
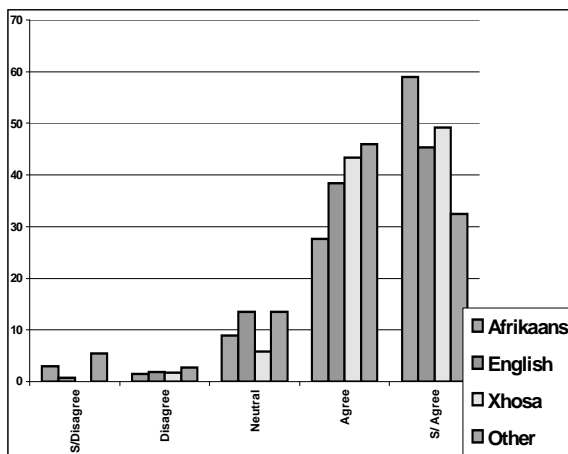
**Statement 29: I feel this bank has a good reputation for excellent customer service**

**Language frequency percentages**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	2.99	0.73	0	5.41
Disagree	1.49	1.83	1.67	2.7
Neutral	8.96	13.55	5.83	13.51
Agree	27.61	38.46	43.33	45.95
S/ Agree	58.96	45.42	49.17	32.43

**SBU frequency percentages**

Preference	Personal	F/Comm	BOB	Other
S/Disagree	0	2.52	2.75	1.45
Disagree	1.01	0	3.67	2.9
Neutral	9.6	15.13	9.17	10.14
Agree	40.4	36.97	37.61	33.33
S/ Agree	48.99	45.38	46.79	52.17



- Language frequency results:** The Pearson chi square distribution p-value equals 0,012477 which reflects a significant difference in how respondents feel about the bank’s reputation for excellent customer service. A total of 79 responses were observed while only 65 were expected in the Afrikaans *strongly agree* preference. The p-value indicates that the Afrikaans language group are significantly more convinced that other groups that the bank has a

good reputation for excellent service. This is a strong competitive strategy for the bank and can be utilised as a marketing tool.

- **SBU frequency results:** The Pearson chi square distribution p-value equals 0,210718. Most respondents *agree* and *strongly agree* with the statement posed irrespective of SBU preference groups.

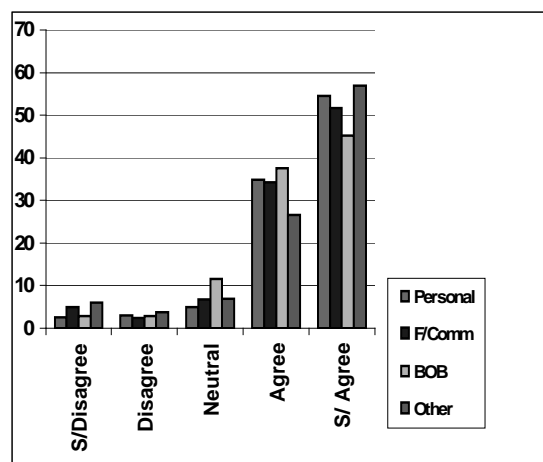
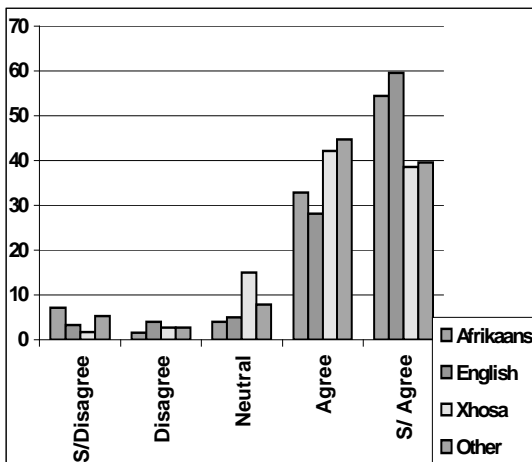
The aim of statement **thirty** was to analyse whether the bank offers easily accessible parking. Diagram 7.30 shows the agreement with statement thirty in terms of language as well as SBU distribution.

**Diagram 7.30**

**Statement 30: Easy access to parking when I visit the bank is important to me**

Preference	Afrikaans	English	Xhosa	Other
S/Disagree	7.2	3.25	1.75	5.26
Disagree	1.6	3.97	2.63	2.63
Neutral	4	5.05	14.91	7.89
Agree	32.8	28.16	42.11	44.74
S/ Agree	54.4	59.57	38.6	39.47

Preference	Personal	F/Comm	BOB	Other
S/Disagree	2.53	5	2.88	6.06
Disagree	3.03	2.5	2.88	3.79
Neutral	5.05	6.67	11.54	6.82
Agree	34.85	34.17	37.5	26.52
S/ Agree	54.55	51.67	45.19	56.82



- **Language frequency results:** The Pearson chi square distribution p-value equals 0,000529 which, reflects a significant difference in how respondents feel about the bank offering easily accessible parking. A total of 165 responses were observed while only 146 were expected in the English *strongly agree* preference. The p-value indicates that the English group has higher expectations with respect to easy accessible parking when visiting the bank in comparison to the other groups.
- **SBU frequency results:** The Pearson chi square distribution p-value equals 0,457020. Most respondents *strongly agree* with the statement posed irrespective of SBU groups. This confirms the importance of easily accessible parking from a customer's point of view when visiting the bank.

To provide easily accessible parking when visiting the bank is regarded as important as the results of the statement portray. This can be used as a strategic marketing tool. It is however limited to specific outlets depending on their location and parking being available. For such a branch it could be important as it could encourage customers to return, which lead to customer loyalty, retention and increased profits (refer to chapter four).

#### **7.4**        **SUMMARY**

The result of the empirical study were presented and analysed in this chapter. The following aspects of each statement were discussed: the aim of the statement, the frequency percentages per language/SBU group in a diagram format and then followed the analysis of the statement. The next chapter contains a summary of the findings of the study, followed by concluding remarks and recommendations.

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