Managing service quality in retail banking : from branch to multi-channel distribution

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MANAGING SERVICE QUALITY IN RETAIL BANKING – FROM BRANCH TO MULTI-CHANNEL DISTRIBUTION

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1. Introduction

Highly competitive market, technology development and ever more demanding customers have introduced a significant pressure on the retail banks. As a result banks are under the real stress to reduce and control the costs while boosting the revenues. Increasing the client acquisitions, product cross-selling and directs sales and service are the daily tasks of the bank personnel. Banks are dealing with issues such as branch efficiency benchmarking, optimisation of the branch network, re-investing, re-positioning, re-shaping and re-tooling their branches to increase their value. Bank executives worldwide agree on the increasing role of the alternative distribution channels in sales and services. These developments raise complex questions that will eventually lead to changes in the distribution model and create a new kind of relationships with the bank customers [5].

Service quality is seen more than ever as a key differentiator in the banking marketplace [7]; it is an inevitable part of customer retention strategy and thus sustaining long-lasting competitive advantage and profitability. Managing quality of banking services is not a recent issue; banks keep addressing the issue of quality of service in one way or another since the early 90s [4]. The quality concepts and tools are well established in the academic literature as well as in the traditional banking environment where the banks possess their quality policy, management system and a set of tools. Nowadays a bank quality manager stands in front of the same challenge as a bank strategist: remote product distribution, services and customer relationship management require a completely new formalization of quality management.

2. Managing Quality in Branch Banking

Quality in a service organization is a measure of the extent to which the service delivered meets the customer's expectations [8]. Customer satisfaction survey (quality failures detection) is therefore always at the beginning of all the quality improvement efforts. Identification of the internal processes, problems and barriers preventing the organisation from delivering the expected quality is a logical step following quality failures detection.

Service intangibility makes the measurement of service quality a though task. The solution to the problem dates back to 80s when the researches proposed several service quality models that are being used to measure quality in service industries. The most widely used models are those from Parasuraman (1985, 1988) and Grönroos (1984), which were adapted for the banking services too and successfully applied as a quality diagnosis tools.

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Parasuraman et al. proposed that service quality is a function of the differences between expectation and performance along the quality dimensions. His service quality gap model defines four gaps (between customer expectations and management's perceptions; management's perceptions and service quality specifications; service quality specifications and service delivery; service delivery and external communications; resulting in perceived service gap - overall customer measure of service quality) standing in the way of delivering a service perceived by customers as being of high quality. Using the service quality criteria - reliability, responsiveness, tangibles, assurance (communication, competence, credibility, courtesy, and security) and empathy (access and understanding/knowing the customers) a bank can get a comprehensive and in-depth profile of how it performed on a set of service quality indicators generating the knowledge that can be used to guide staff actions in order to improve service quality as perceived by customers [9].

Grönroos proposed these three distinct but interrelated dimensions: technical quality - what is received by the customer (output-related attributes: employees' technical ability, knowledge, technical solutions, computerised systems, and machine quality), functional quality - how the service is provided (process related attributes: employees' behaviour; attitude; accessibility; appearance; customer contact; internal relationship; and service-mindedness) and image - the customer's general perception of the supplier. Aldlaigan and Buttle (2004) [1] validated a multi-dimensional service quality scale for banking services based on the Grönroos model. Their SYSTRA-SQ scale can be used to evaluate service performance at organisational and transactional level, while integrating technical and functional attributes into a single quantitative dimension at both levels.
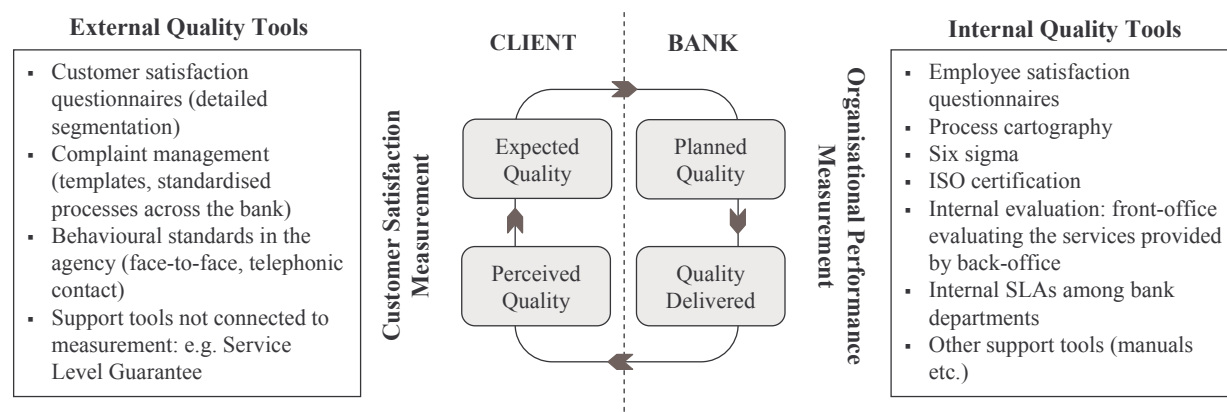
External Quality Tools			Internal Quality Tools
- Customer satisfaction questionnaires (detailed segmentation) - Complaint management (templates, standardised processes across the bank) - Behavioural standards in the agency (face-to-face, telephonic contact) - Support tools not connected to measurement: e.g. Service Level Guarantee	Customer Satisfaction Measurement	CLIENT / BANK: Expected Quality — Planned Quality / Perceived Quality — Quality Delivered (Organisational Performance Measurement)	- Employee satisfaction questionnaires - Process cartography - Six sigma - ISO certification - Internal evaluation: front-office evaluating the services provided by back-office - Internal SLAs among bank departments - Other support tools (manuals etc.)

Figure 1: Example of a quality management system in a bank

To eliminate the quality failures a bank needs to have a set of tools and standards that support the staff in the quality improvement actions. Figure 1 shows an example of a quality management system implemented in a bank. The bank formalised quality management from two points of view as external and internal quality (based on quality cycle concept [6]).

3. Multi-channel Service Quality Challenges

In banking, quality means not just meeting but exceeding customer expectations, requiring banks to use their technology to best advantage to improve customer service quality [2]. Banks use various technologies (ATM, Internet, telephone, mobile banking) to deliver the products and services to customers. However, customers' desires for quality service do not change; they want what they have always wanted: dependable outcomes, easy access, responsive systems, flexibility to get what they want, and apologies and compensation when things go wrong - they want quality service [3].

Investigations of quality issues of technology-based banking are becoming necessary as the bankers see these channels as the sales and service outlets of the future. Bank quality managers face several challenges: i) customer quality criteria concerning the alternative channels are either unexplored or at very unsatisfactory level, ii) quality management for the alternative channels (general concept, tools and quality support) is not formalized, and iii) multi-channel distribution introduces strong technological challenge too that deals with hardware, IT applications, and network problems, payment methods, security, and service support. Further the banks depend on component and technology infrastructure providers and outsourcing arrangements. All these facts make the formalization of quality management for the alternative channels a complex issue that will require first revision of the practices already implemented across the banks but never formalized as a part of quality management system, second cross-functional expertises and participation and finally the implementation of new marketing concepts that have recently emerged in the e-service domain.

DIMENSIONS OF VIRTUAL QUALITY (potential indicators)		QUALITY OF EXCEPTION (customer support)	
System availability	The correct technical functioning of the site.	Responsiveness	Ability to provide appropriate information when problem occurs.
Virtual fulfilment	The extent to which the site's promises about product and service delivery and availability are fulfilled.	Contact	The extent to which the customers are able to speak to a service agent.
Privacy	The degree to which the site is safe and protects customer information.	Compensation	
Efficiency		INTEGRATED INTERACTIONS	
i) Easy of use	User interface: site design /appearance; appropriateness, quality and presentation of the information; navigation, etc.	Content consistency	*Outgoing information:* degree to which customer receives the same response through different channels; *Incoming information:* degree to which an interaction taking place takes into account past interactions through other channels
ii) Speed (response time)	Site loading and completing of transactions.	Process consistency	Degree of consistency in relevant and comparable process attributes across channels (e.g. service's feel, image, waititng times, employee discretion levels).

Figure 2: Quality dimensions for multi-channel services (adapted from Sousa & Voss, 2004)

4. Outlining the formalization of quality management for alternative channels

Despite the fact that the research on automated service quality is still in an infancy stage it offers several conceptual models that can serve as a basis for creating a quality management system in the multi-channel context. Sousa and Voss [10] propose that in a multi-channel setting service quality comprises of three components: virtual (using advanced ICT: ATM, Internet, telephone – self-service technology concept), physical (people-delivered; interaction by phone or email with a customer support representative is a physical service provided through a virtual channel) and integration quality (seamless service experience across channels). Figure 2 shows quality dimensions structure that can be used as a quality diagnosis tool. It can serve to construct a customer survey, to analyse the existing feedbacks (satisfaction questionnaire, complaints, and other knowledge) as well as to build a quality management system for the alternative channel banking.

It is essential to realise that because of the different natures of associated service delivery systems (virtual/physical front and back offices), quality improvement activities targeted at these components will also have very different natures and emphasis. The virtual components consist in an almost purely IT intervention, for the physical components this will involve traditional process improvement [10]. Quality management system for the alternative channels will be a mixture of quality tools for traditional services and technology standards that require cross-functional expert knowledge (figure 3 depicts some of the issues a banks needs to integrate into quality management system for alternative channels).
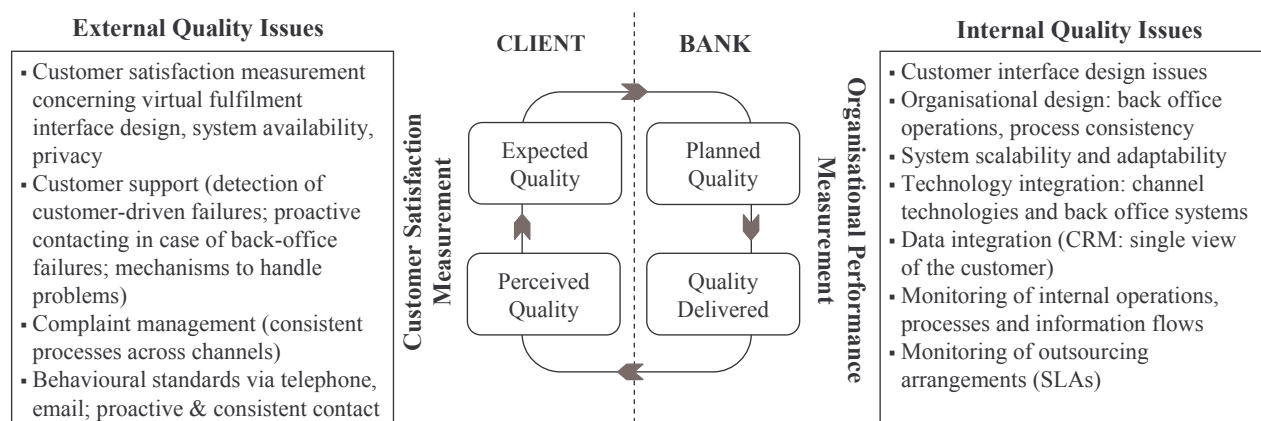
External Quality Issues

- Customer satisfaction measurement concerning virtual fulfilment interface design, system availability, privacy
- Customer support (detection of customer-driven failures; proactive contacting in case of back-office failures; mechanisms to handle problems)
- Complaint management (consistent processes across channels)
- Behavioural standards via telephone, email; proactive & consistent contact

CLIENT BANK

Customer Satisfaction Measurement

Expected Quality

Planned Quality

Perceived Quality

Quality Delivered

Organisational Performance Measurement

Internal Quality Issues

- Customer interface design issues
- Organisational design: back office operations, process consistency
- System scalability and adaptability
- Technology integration: channel technologies and back office systems
- Data integration (CRM: single view of the customer)
- Monitoring of internal operations, processes and information flows
- Monitoring of outsourcing arrangements (SLAs)

Figure 3: Multi-channel quality management issues

5. Conclusion

Due to the completely different nature of service delivery and contact with the bank customers, establishing a quality management system in the multi-channel context may be a difficult task. The banks have to adopt the understanding of quality in technology-based environment, explore the perception of quality delivered to the customers and identify the quality management tools and standards to be able to execute the quality improvement actions. In this article we describe a quality management practice for traditional branch banking, we point out the quality management challenges in multi-channel context and based on the academic literature we outline a possible formalization of quality management for the alternative distribution channels.

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Summary

Quality of banking products and service remains a critical issue of customer satisfaction and loyalty in multi-channel context. Understanding of quality in technology-based service provision and quality management system for the alternative channels remain unexplored in the banking practice. The article depicts the challenges the banks are facing and provides an insight into the process of formalisation of quality management for the alternative distribution channels.