Service Quality in Banks: Insights from the Brazilian Experience

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Abstract

Quality in servicing customers is important for the industry. Nonetheless, problems in defining such constructs as *service quality* and *customer satisfaction*, along with difficulties in putting into operation current instruments to measure them, constitute constraints for practice and research. This paper presents a framework aimed at addressing the quality of banking services, framework which is based on customer perceptions surveyed by a consultant firm with 11,936 customers of a Brazilian bank. From the survey and the theoretical developments, five constructs driving the quality of banking services and customer satisfaction emerged: (1) *relationship with the customer*, (2) *business and financial transactions*, (3) *information technology*, (4) *branch*, and (5) *image*.

The Banking Industry

Much has been said about the search for high levels of quality in delivering services. According to Parasuraman et al. (1985), the study of quality in services has gained interest just after the concern on improving the quality of products appeared, and services are increasingly important in the global economy (regarding the participation in the GNP and job creation figures, for instance). Like machines transformed the agricultural economy into an industrial one, the information technology nowadays changes the industrial economy in such a way that it becomes characterized as based on services (Fitzsimmons, 2000).

Fierce competition has obliged service organizations to look for an effective way to differentiate in the market and augment the likelihood of customer satisfaction. Strategic quality management in services is therefore improving in the industry, including the banking sector (Soteriou & Stavrinides, 2000; Bhat, 2005). Even though, service quality in banks was not always targeted when looking for mediating factors towards financial performance (Mukherjee et al., 2003); additionally, financial institutions struggle to find or develop instruments to measure the quality of their services (Bahia & Nantel, 2000; Bhat, 2005). Delivering quality services is indeed an important marketing strategy (Berry & Parasuraman, 1995), but the difficulty in defining *service quality* and *customer satisfaction*, as well as problems in deploying to specific contexts current instruments for measuring such constructs, represent important constraints for the organizations to approach their markets.

The banking sector has already been depicted (e.g., in Parasuraman et al., 1993, and Mukherjee et al., 2003) as exhibiting little market orientation and fulfilling services with little regard to customer needs, as well as including branches dissimilar in efficiency (Berger & Mester, 1997; Berger et al., 1994). Long lines, limited time for customer servicing, transaction errors due to the banks personnel, and excessive bureaucracy have been said to be the most frequent problems in using banking services (Mattos, 1999). However, contemporary factors like more demanding and informed customers, the emergence of new technologies, and the competition increase (Cooke, 1997; Angelis et al., 2005) modified the relationship between banks and customers, and strategies for survival and business expansion started to approach this seriously (Global Finance, 2000) and target service quality (Frei et al., 1997). In fact, customers determine the frequency of their contacts with companies based on the experiences they have with the services, and this exerts substantial impact on the profitability of organizations in the long run (Bolton & Lemon, 1999; Mukherjee et al., 2003; Bhat, 2005). Customers who are satisfied with service quality are less likely to shift to other banks, therefore increasing such things as loyalty and retention (Al-Hawari et al., 2005; Angelis et al., 2005).

But customers do not like to be treated as they were just numbers or statistics (Berry & Parasuraman, 1995). According to the federation of Brazilian banks (FEBRABAN, 1993), banks must understand their current and future needs and set business-oriented goals in a pro-active way, therefore implementing quality as actually (ideally) conceptualized by the customer, rather than as a direct outcome of technical specifications from process designers (Frei et al., 1997). Moreover, it seems reasonable to assume that customers want to be sure that they choose a bank perceived as being the best manager for their money, but they also want a polite servicing and a trustworthy process. Barnes (1997) already said that no service industry seems to be more interested in setting up relations with customers than the banking industry; however, the increasing deployment of technology in financial transactions reduced the contact between bank and customers, modifying quite remarkably the general aspect of the relationship in fact, with the technology having lowered information costs, many individuals and companies are able to compare portfolios of investments between banks, or even invest directly (Cooke, 1997).

This new business environment marked by the influence of bold global changes in the relationship between customers and companies sets the scene of the contemporary Brazilian banking industry represented by 164 organizations (FEBRABAN, 2005). Historically, the financial sector in Brazil exhibits a steadily growing character, both in terms of financial transactions and the number of customers. Banks have developed solutions aligned with demands in each period of the Brazilian and world economy, like expanding the network of branches towards the inland a pressing market and industry need, given Brazils continental dimensions , interchanging assets in periods of high inflation, and maximizing the access of customers to the banks (FEBRABAN, 2005). The sector has over 71.5 million customers with current accounts, approximately US$305 billions in total deposits and US$48.2 billions in net assets (FEBRABAN, 2005). Cypriano (2005), FEBRABANs current chief representative, says that only a few countries have a banking system able to process transactions immediately and securely like

Brazil does. He adds that an important challenge is to keep up with service levels at quality standards all over the sectors customer base, and for this to occur it is mandatory that a permanent technological investment be put in place. Mergers, partnerships and incorporations also receive great attention as privatization and deregulation continue to happen in the country, offering the opportunity to increase the solidity of banks (Lara et al., 1999). Moreover, the knowledge on managing modern technologies is in consistent development, which enables one to address more effectively the satisfaction of external and internal customers (Ceretta & Niederauer, 2001).

In such a realm, computers and information technology (IT) in particular play an important role (Shoebridge, 2005), and this is one reason why the banking industry is among the most intensive in deploying information systems (Drucker, 1999). For instance, bank investments in IT in Brazil were around US$2 billions in 2004 (FEBRABAN, 2005). With the increase of self-service kiosks, Internet services, call centers, and cash machines available in stores, the most recurring problems have been mitigated (and, in some cases, solved); as an effect, the volume of services increased, service fulfillment became easier, and the customer experience turned out to be more comfortable. It is noticeable that the new technologies, particularly in telecommunications, enabled banks to service customers not only in branches and other dedicated servicing sites, but also in domiciles, work places and stop-and-shop stores, as well as in a myriad of other channels (Lovelock, 1996; Al-Hawari et al., 2005). Also, IT enables banks to introduce new products, perform more efficiently, increase productivity and operate geographically dispersed (Cooke, 1997). IT, however, is more of a commodity than a source of sustainable market differentiation, the actual organizational competence lying in the ability to effectively deploy it (Pires & Marcondes, 2005); indeed, with new computer and telecommunications technologies and increasingly sophisticated management and control systems, sound investments in personnel training and development are also in need (FEBRABAN, 2000). The implications of all this for the present research are manifold and urge us to address IT with the appropriate care.

Issues related to the branches are another concern when dealing with the quality of banking services. For instance, access to the facilities (e.g., parking lot attributes and the mobility of people inside the branches) and safety and convenience of location make customers assess quality on a tangible basis (Castro, 1997); the branches external and internal architecture may mediate the perception of quality; and while ATMs inside the branches simplify the customers procedures and lowers personnel costs, the number of human attendants is also important and vary according to demand, specially for reducing waiting times for certain services, providing human interaction and servicing elder and less informed customers, who still seem to prefer people instead of machines as interfaces for their transactions (Lovelock, 1996; Dick, forthcoming).

Advertising practices and the banks institutionalized reputation within the community may be related to service quality as well (Dick, forthcoming; Angelis et al., 2005), although a banks customer seems not likely to pay attention to a competitors publicity (Strandvik & Liljander, 1994). Horovitz (1993) makes the point, however, that studying the image of a company maybe can only distinguish market *expectations* rather than *satisfaction* levels, and that the communication strategy should not promise to the customer a performance level for the service that cannot be later actually perceived. Another strategy for developing a good image within the market is, according to Compton (1990), diversifying the portfolio of services, inasmuch as who uses many banking services is not likely to move to another bank. Sponsoring cultural activities and sports should also be considered.

Service Quality in Banks

We propose a framework for addressing the quality of banking services primarily applicable to the Brazilian context. The framework is based on the rationale developed so far and on a quanti-qualitative study carried out by a consultant firm (of which the authors did not take part) with customers of the foremost Brazilian bank in most numbers. Differently from adopting the prevailing SERVQUAL rationale (Parasuraman et al., 1985; Parasuraman et al., 1988; Parasuraman et al., 1993) for assessing quality as did the consultants , we applied SERVPERF (Cronin Jr. & Taylor, 1992) to questionnaires received from the same respondents (11,936 in total), and so we were able to re-interpret the results. Five factors for assessing the services of a bank emerged, as follows (the first two had a significantly higher impact on customer satisfaction):

- *relationship with the customer*, that is, attributes of the relationship between the bank and the customer during service fulfillment;

- *business and financial transactions*, that is, attributes of the ultimate purpose of the bank, that of collecting financial resources from customers, making investments and distributing financial benefits to customers and shareholders;

- *information technology*, that is, how IT supports the customer in his/her needs in services;

- *branch*, that is, attributes of the physical environment where services are performed, like comfort and easiness of access for the customer; and

- *image*, that is, how the bank presents itself to the community.

The exhaustive conceptual and statistical validation, as well as the 33-item instrument for measuring the factors, can be obtained from the authors. Some useful information can also be found in Bellini et al. (2005).

Concluding Remarks

Our five-factor framework needs to be interpreted with care, particularly when assessing the IT indicators (since technology changes fast and only gradually institutionalizes its attributes within the clientele) and the influence of contextual factors (which play an important role in all quality drivers, and that are supposed to be different between national cultures). However, we strongly believe to have identified necessary if not sufficient constructs to be addressed by managers when designing a banks portfolio of services and mediating conditions.

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