University of Portsmouth

Department of Economics

Service Quality Determinants in the Greek Banking System

MASTROJIANNI EVMORFIA

374527 (UoP ID)

SEPTEMBER 2008

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A dissertation submitted in partial fulfilment of the requirements of the Postgraduate Programme in Economies MSc Business Economics, Finance and Banking, undertaken at the University of Portsmouth, UK

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“I, the undersigned, declare that this dissertation is my own original work, and I give permission that it may be photocopied and made available for inter-library loan.”

Mastrojianni Evmorfia

September 19, 2008

ACKNOWLEDGEMENTS

I would like to deeply thank my tutor Mr. Evaggelos Tsoukatos for his excellent guidance and help while preparing and writing up dissertation. Also, I'd like give special thanks to my family for their support and encouragement.

Abstract

The profile of Banking Institutions has been constantly changing during the last two decades. Banks have been gradually transformed from caretakers of money deposits and loan dispensers into wider investment development and capital management systems, providing a multitude of financial products and services often tailored to fit their customers' requirements and match a wide spectrum of their expectations.

While the Banking system, worldwide, seems to have reached the ceiling in terms of fulfilling both its own and its customers' expectations regarding the efficacy and diversity of the banking products and services, the interest is now directed towards the quality of these products and services; that is, the issue is not only "what" the customers get but "how" it is delivered to them. This is mainly a consequence of a spectacular increase in the number of financial institutions that compete in a very antagonistic business environment. The liberalization and integration of global financial markets along with the deregulation of domestic and regional markets, has escalated competition as powerful international banking institutions now find it easier to literally invade into domestic markets. In this fiercely competitive business environment, most banking institutions are trying to satisfy their customers' increasingly demanding needs by offering, more or less, similar products and services. However, the main issue for banking institutions is to build and maintain long lasting relations with their customer bases that lead to sustainable business portfolios and market shares. Hence, understanding how customers respond to the provision of qualitative services is of paramount importance for bank managers. The literature provides amble evidence that such an understanding necessarily passes through assessing customers' perceptions of service quality and identifying its main determinants as well as its impact on customer satisfaction that in turn is found to be the main antecedent of customer retention.

Although extensive research has been conducted worldwide with regard to the quality of services in international and/or domestic financial markets, the literature related with the Greek banking industry is extremely poor, if not inexistent, to the best of the authors' knowledge. Mainly as a result of Greece's entry into the EMU in 1995 the industry has become extremely complicated and competitive as 62 foreign and Greek banks, with nearly 4.000 bricks-and-mortar establishments and 7.000 ATMs, compete

in a peripheral European economy with a rather small, although growing, total market pie. This study aims at contributing towards enhancing the existing level of understanding with regard to the determinants of service quality and its effects on the behavior of customers in the Greek banking industry and narrowing the existing literature gap. We expect that the conclusions drawn will be welcome by the management of banking institutions and will be put to good use to progress their competitive market position. Previous research in international markets has shown that the corporate image of banking institutions to a large extend relies upon the excellence of their service delivery and their ability to sustain long-lasting relations with their customers. Furthermore we expect that our findings will become a useful basis for further research in the Greek or other financial services markets.

This study develops a SERVQUAL type scale especially customized for the Greek banking industry, assess the scale's reliability and validity and detect its factorial structure. Furthermore, importance-performance analysis is employed to provide strategic guidance to Greek banking institutions on deploying their quality efforts and resources towards better matching their customers' needs and expectations.

CONTENTS

CHAPTER 1

***Berry (1995)**, in his book **'On Great Service'** clearly states that delivering great service, one customer at a time, day after day, month after month, is difficult, but immensely rewarding. Berry wonders: **Why 'great service?' what is wrong with 'good service?'** Good service isn't good enough to insure differentiation from competitors, to build solid customer relationships, to compete on value without competing on price, to inspire employees to want to become even better at their work and at their lives, to deliver an unmistakable financial dividend.*

INTRODUCTION

1.1 State of the problem

The last two decades there has been a lot of change in the banking industry. Banks have been gradually transformed from caretakers of money deposits and loan dispensers into wider investment development and capital management systems, providing a multitude of financial products that match a wide spectrum of customers' expectations.

As the industry becomes more globally integrated differences among banks and their products are gradually diminishing. Consequently, research on global banking is largely focused on structural, regulatory and performance differences. Moreover, analysis of the delivery of banking services in an economy may well result in information of value to banks in other countries (Angur *et al.*, 1999).

Changes in regulation and structure as well as great progress in technology have significantly altered the banking environment worldwide: Regulatory changes eliminated barriers to cross-border expansion, leading to a more integrated global banking market. Structural changes gave banks the chance for a greater range of activities, enabling them to become more competitive in comparison to non-bank financial institutions. Technological changes have made banks to reconsider their strategies for services provided to both commercial and individual customers. It is within this rapidly changing environment that customer satisfaction and service quality are compelling the attention of all banking institutions (Angur *et al.*, 1999).

Considering as a fact that financial institutions provide their customers with products quite similar, they need to focus on new strategic manners that will give them a competitive advantage towards other financial institutions. In this respect, the quality of delivered services is found related with the financial performance of firms (Greising, 1994; Rust *et al.*, 1995), consumer satisfaction (Spreng *et al.*, 1996), switching behaviour (Keaveney, 1995), and behavioural intentions of customers (Boulding *et al.*, 1993; Cronin and Taylor, 1992).

Undoubtedly, in front of the great competition between financial institutions, worldwide and specifically in Greece, the country in question, a competitive advantage, that would lead to a bank's sustainability through years, is to build lifetime relationships with its customers. However, research examining the effects of customer satisfaction on behavioural responses has received very limited attention in the marketing literature (for exceptions see Boulding *et al.*, 1993; Cronin and Taylor, 1992; Zeithaml *et al.*, 1996).

In order to achieve lifetime relationships with customers, banks should provide them with outstanding quality of services in comparison to other financial institutions. Zeithaml *et al.* (1996) indicated that examining the link between customer satisfaction and behavioural responses is a part of the many relations that need to be further investigated in order to better understand the link between customer satisfaction and financial outcomes of an organization. Moreover, Zahorik and Rust (1992) proposed that studying the behavioural responses to service programs can help managers estimate the financial consequences of customer satisfaction.

Thus, the quality of delivered services is considered as an essential strategic component for firms in general and the banking system in particular, attempting to succeed and survive in today's fierce competitive environment (Phillips *et al.*, 1983; Parasuraman *et al.*, 1985; Reichheld and Sasser, 1990).

An effective selling strategy implies promotion of only one key benefit to the target market. Some scholars refer to it as the “core benefit proposition” (Urban and Hauser, 1993). In other words, banks could use only one key benefit, personal banking services, to penetrate effectively to their target market. In view of this, service quality has become a key construct in the banking industry. It is important to analyze the means of measuring and evaluating the service quality provided by financial institutions as they adjust to the many changes in the banking environment (Athanassopoulos *et al.*, 2001).

If we take into consideration the fact that nowadays customers have a more advanced standard of living and educational level, their requirements from banks are higher. Not to mention the access they now have to services provided from domestic and international banks, making them able to compare and demand more favourable terms. Thus, the level of perceived quality of service from customers is of great importance in high involvement industries like banking services. Banks have traditionally placed a high value on long-lasting relationships with both commercial and retail customers. However, the nature of the customer relationship is changing, particularly on retail banking (Angur *et al.*, 1999).

A major boost on service quality research was given by Cronin and Taylor (1992). Since then a lot of work has been done from eminent researchers like Parasuraman *et al.* (1993), Cronin and Taylor (1994), Avkiran (1994), Teas (1994), Newman and Cowling (1996), Yavas *et al.* (1997) and many others, not reaching though a point of unanimity. However, great issues for academics as well as for practitioners arise. In other words important, although conflicting, insights into methodological, analytical, conceptual and practical issues, related to the service quality concept, are provided (Angur *et al.*, 1999).

What is more technology has invaded our every day life and now we have reached a point where it is impossible to imagine our lives in the absence of it. The banking sector could not escape from this technological revolution. The rhythm of modern life does not allow the luxury of having plenty of time to spend. The customer population has largely increased making time of waiting in banks resentful. Banks had to invent ways to reduce or better minimize waiting. Thus, they not only introduced online networks between branches but also made possible for customers to transact through the internet. Online banking is defined as an Internet portal, through which customers can use different kinds of banking services ranging from bill payment to making investments (Pikkarainen *et al.*, 2004).

As a result, electronic banking became prevalent. However, bank's service quality may well be measured in terms of personal support rather than technical support. In other words, as banks become more and more “high-tech”, their technical services are becoming standardized, reducing the importance of such services as a differentiating factor; thus, consumers will evaluate banks based more on personal relationship factors than on technological factors. Despite the fact that many banks have provided financial incentives for consumers to utilize automatic teller machines (ATMs), such as teller fees, etc., or the internet banking the ``unique selling proposition'' (Kotler, 1997) of a bank still appears to be personal banking services (Angur *et al.*, 1999).

In the literature the research in service quality appears to have two dimensions. On one hand, the identification of service quality dimensions was of primary interest to researchers (Parasuraman *et al.*, 1985, 1991a). On the other hand, the development of measurement instruments of service quality was the focus of subsequent research efforts (Parasuraman *et al.*, 1988, 1991b; 1993; Cronin and Taylor, 1992, 1994; Asubonteng *et al.*, 1996; Buttle, 1996; Athanassopoulos 1998, 1999).

The agenda of service quality has very quickly been enhanced by creating the domain of customer satisfaction where most aspects of the marketing mix have been included into its determination (i.e. service quality, convenience, and price). Later though, the customer satisfaction research agenda shifted focus and concentrated on other equally important issues (Athanassopoulos *et al.*, 2001).

Service quality is a critical issue in the service industry and even more important for financial service providers who generally offer products that is difficult for consumers to differentiate (Stafford et al., 1998). Financial services researchers have examined customer satisfaction, but few researchers have looked at consumer perceptions of provider performance on specific principles of service quality (Allred and Addams, 2000).

1.2 Objective of the study

Despite the fact that the concepts of customer satisfaction and service quality are obviously related, this study will focus only on service quality. Thus, the purpose of the present thesis is to investigate the level of quality service provided in Greece based on their customers' perceptions as well as the degree of importance bank customers in Greece attach to various service quality dimensions. Evidence is drawn from Greek retail banking. It is hoped that this study will be considered as a valuable contribution to the existing body of service quality literature.

Although extensive research has been conducted worldwide with regard to the quality of services in international and/or domestic financial markets, the literature related with the Greek banking industry is extremely poor, if not inexistent, to the best of our knowledge. Mainly as a result of Greece's entry into the EMU in 1995 the industry has become extremely complicated and competitive as 62 foreign and Greek banks, with nearly 4.000 bricks-and-mortar establishments and 7.000 ATMs, compete in a peripheral European economy with rather small, although growing, total market pie.

1.3 Scope of the study and expected benefits

This study aims at contributing towards enhancing the existing level of understanding with regard to the determinants of service quality and its effects on the behaviour of customers in the Greek banking industry and narrowing the existing literature gap. We expect that the conclusions drawn will be welcome by the management of banking institutions and will be put to good use to progress their competitive market position.

Previous research in international markets has shown competitive market position and that the corporate image of banking institutions to a large extend relies upon the excellence of their service delivery and their ability to sustain long-lasting relations with their customers. Furthermore, we expect that our findings will become a useful basis for further research in the Greek or other financial services markets.

Bank managers based on these results can emphasize the various dimensions of service quality differently and introduce quality initiatives in Greece. To the best of our knowledge this is one of few surveys that have been conducted in this subject, concerning Greece, providing information for bank managers to use in developing operational, marketing and human resource strategies in this growing banking sector.

1.4 Structure of the study

The remainder of this study is organized in six sections. The following section reviews the literature on nine distinct areas related with the study's objectives: service quality –definitions- , consequences of service quality and customer satisfaction, customer evaluations, the impact of technology on service delivery, impact of technology on the banking sector, electronic banking and its implications, customer expectations, customer retention, and service quality using importance-performance measurement. Section three explains the methodology of the study while the results are presented and briefly discussed in section four. Section five describes the implications of the study's findings to management and is followed by section six with the study's limitations and recommendations for further research. Conclusions are offered in section seven.

CHAPTER 2

LITERATURE REVIEW

2.1 Service Quality

Service quality is attributed by a high degree of variations, a result drawn from the comparison that customers make between their expectations about service and their perception of service performance (Gronroos, 1984; Parasuraman et al., 1985, 1988). At a higher level, from the customers' perspective, service quality is considered as being two-dimensional, consisting of quality output and quality process. Additionally, the model proposed by Gronroos (1984, 1990) highlights the role of technical or output quality and functional or process quality as occurring prior to, and resulting in, 'outcome' quality. This concerns both psychological and behavioural aspects that include the accessibility to the provider, how service employees perform their task and how the service is delivered (Anon, Online Thesis).

Service quality is being considered as one of the most important research topics, in the management science literature, since it relates to *costs* (Crosby, 1979), *financial performance* (Buzzell and Gale, 1987), *customer satisfaction* (Spreng *et al.*, 1996), *customer retention* (Reichheld and Sasser, 1990), and *differential competitive advantage* (Iacobucci *et al.*, 1994). This recognition for the important role that service quality plays in business success has led to the development of alternative schools of thought regarding service quality (e.g. Parasuraman *et al.*, 1985, 1988; Gronroos, 1990; Reeves and Bednar, 1994). This has ignited a lively and heated debate with respect to the definition and measurement of service quality (Athanassopoulos *et al.*, 2001).

The question actually is what is meant by the term 'service quality' and how it is perceived by bank customers. First, we need to understand that Service Quality is a concept and this makes it intangible in controversy to Goods Quality that is tangible. Thus, while goods quality can be measured by objective indicators such as features, performance and durability, service quality can be only defined in terms of subjectivity, attitude and perception (Allred and Addams, 2000).

Zeithaml (1987) describes service quality as the consumers' judgement about an entity's overall excellence or superiority and a form of attitude that results from a comparison of expectations to perceptions of performance received. Lewis & Booms' (1983) conceptualize Service Quality as a measure of how well the service level delivered matches customer expectations and that delivering quality service means conforming to customer expectations on a consistent basis.

Another definition of perceived service quality is that of 'a consumer judgement (a form of attitude) and results from comparisons consumers make between their expectations and their perception of the actual service performance' (Lewis, 1989). Thus, in the banking sector, perceived service quality results from the difference between customers' perceptions for the services offered by the bank (received service) and their expectations *vis a vis* the banks that offer such services (expected service) (Bahia and Nantel, 2000).

From the aforementioned definitions it is obvious that service quality is directly connected and interdependent to customers' expectations and their perceptions of service performance. Parasuraman *et al.*, (1991) mention that consistent conformance to expectations starts with identifying and understanding customer expectations and that the development of such an identifying system is critical in that only so effective service quality strategies will take place.

Due to the fiercely antagonistic business environment the banking system switches interest towards the quality of services provided to customers, especially now that the liberization and integration of global financial markets along with the deregulation of domestic and regional markets, has escalated competition and powerful international banking institutions now find it easier to literally invade into domestic markets. Domestic or international service firms recognize that service quality in banking is the key to competitive advantage and corporate profitability (Petridou *et al.*, 2006). More precisely, superiority in quality has been found to provide significant performance related advantages such as market share growth and productivity, customer loyalty, responsiveness to demand (Berry *et al.*, 1985, Capon *et al.*, 1990; Berry and Parasuraman, 1991; Anderson *et al.*, 1994; Rust *et al.*, 1994; Barnes and Cumby, 1995; Lassar *et al.*, 2000; Roberts *et al.*, 2003; Jabnoun and Al-Tamimi, 2003).

In this competitive business environment, most banking institutions are trying to satisfy their customers' increasingly demanding needs by offering, more or less, similar products and services. However, the main issue for banking institutions is to build and maintain long lasting relations with their customer bases that lead to sustainable business portfolios and market shares. Bank service quality is commonly noted as a critical prerequisite for satisfying and retaining valued clients (Taylor and Baker, 1994). Hence, understanding how customers respond to the provision of qualitative services is of paramount importance for bank managers, who recognize that to successfully leverage service quality as a competitive edge, they first need to correctly identify the antecedents of what the consumer perceives as "quality" of service (Petridou *et al.*, 2006; Glaveli, N. *et al.*, 2006).

Service encounters are first and foremast social encounters, thus rules and expectation related to them vary considerably across countries (Malhorta *et al.*, 2005). Consumers of services in different countries are expected to have different perceptions of what service quality is, due to diversities that exist in terms of economic development level and political and socio-cultural system (Furrer *et al.*, 2000; Witkowski and Wolfinbarger, 2000). Thus, managers who seek to develop international service standards may not succeed unless they are aware of the value of environmental differences between countries in terms of economic development, political ideology, cultural value system and level of sector maturity and accordingly emphasize the various dimensions of service quality differently. In addition they can focus on commonalities to introduce global or regional quality initiatives (Glaveli, N. *et al.*, 2006).

Many factors can lead to poor service quality across industries. One such factor may be an inability to collect or use collected data. For example, in direct opposition to consumer opinion, bank executives perceived themselves and their companies to be doing an excellent job. Service quality is a critical issue in the service industry and even more important for financial service providers who generally offer products that is difficult for consumers to differentiate (Stafford *et al.*, 1998). Financial services researchers have examined customer satisfaction; few researchers though have looked at consumer perceptions of provider performance on specific principles of service quality (Allred and Addams, 2000).

2.2 Consequences of service quality and customer satisfaction

What makes service quality of immense importance to banks is that by differentiating among other banks better economic performance is achieved. However, the impact of quality investments on profits cannot always be directly assessed because it usually is long-term; profits are influenced by many other variables (price, distribution, competition, effectiveness, image and publicity); and simply spending on quality does not automatically lead to profits because the strategy and functionality of the investment are also important (Zeithalm *et al.*, 1996). The links between service quality and profits are not always straightforward (Greising, 1994). Although there are powerful conceptual arguments that such links exist (Anderson and Fornell, 1994; Zeithalm, 2000), there is considerable debate on their nature (Tsoukatos and Rand, 2006).

A moderating variable between service quality/customer satisfaction and economic performance is loyalty. Loyalty is the extent to which customers wish to keep their relationship to a bank, and usually results from how much they believe that the value they receive from this bank is higher compared to others. Loyalty is behaviourally expressed by retention (Bansal and Taylor, 1999) and emotionally (Ranaweera and Prabhu, 2003), by WOM; the extent to which customers are willing to inform others on service incidents that have given them satisfaction (Soderlund, 1998; Tsoukatos and Rand, 2006). By being loyal, a bank customer not only is difficult to move to a competitive bank but also generates a great deal of advertisement for their bank.

Positive correlations between customer satisfaction and retention, loyalty and WOM have been reported in a number of studies (Parasuraman *et al.*, 1988; Reichheld and Sasser, 1990; Fornell, 1992; Anderson and Sullivan, 1993; Mittal and Kamakura, 2001; Chumpitaz and Paparoidamis, 2004). Rust *et al.* (1995) argue about the economic consequences of complaints handling systems while Anderson and Sullivan (1993) report that the customers' repurchase intentions in Sweden are strongly connected to their satisfaction from specific product categories. Anderson *et al.* (1994) argue that higher levels of customer satisfaction increase loyalty, decrease price elasticity, protect current market shares, decrease the cost of failures and of attracting new customers and help companies to build a positive corporate image.

Financial service suppliers, worldwide, have recognized that a most effective method of retaining customers and, hence, reducing the need of investments for attracting new ones is a persistent customer satisfaction program. Services of high quality result in more repeat sales and market share improvement (Buzzell and Gale, 1987). Lewis (1993) supports these findings and considers service quality as one of the most effective, and yet most difficult, means of creating competitive advantage and improving business performance. The financial service provider's image is related to the dimension of satisfaction often reported as "corporate quality" (Athanassopoulos, 2000).

Van der Wiele *et al.* (2002) provided evidence for the links between customer satisfaction and overall business performance while Lee and Hwan (2005) found that in banking, from the customer's perspective, customer satisfaction directly influences purchase intentions while, from the perspective of management, it significantly influences profitability. Zeithaml *et al.* (1996) propose that by improving the quality of services, the favourable behavioural intentions of customers are increased while the unfavourable are decreased. They point out that when customers praise a company, prefer it against others, increase the volume of their purchases or knowingly pay more for its products and/or services, they certainly have a bond with the company (Tsoukatos and Rand, 2006).

The existence of the economic consequences of customer satisfaction was documented in a number of industries in Sweden (Fornell, 1992) and elsewhere (Anderson *et al.*, 1994). This led a number of major national economies to measure satisfaction at the industry level using nationwide surveys to estimate retention rates, word-of mouth and economic performance (Fornell, 1992).

The literature provides amble evidence that such an understanding necessarily passes through assessing customers' perceptions of service quality and identifying its main determinants as well as its impact on customer satisfaction that in turn is found to be the main antecedent of customer retention (Tsoukatos and Rand 2006; Glaveli *et al.*, 2006; Petridou *et al.*, 2007)

Despite the rapidly growing activity of trading and investment in services it is acknowledged that the area is relatively new in terms of research especially in the international context (Axinn and Matthyssens, 2002).

Based on the above it is quite obvious that, understanding customers perceptions of the level of bank service quality provided, as well as the nature (dimensionality) of service quality in Greece is of great importance to local and international bank managers (Petridou *et al.*, 2006).

2.3 Customer evaluations

The Parasuraman *et al.* (1985) research, which is supported by two decades of further research, outlined another fundamental principle of service quality. The researchers found that consumers evaluate the process as well as the outcome of the service received. In other words, the waiting time, the smile, and the attitude of the employees are as important as the approval of the loan. Through focus group interviews and subsequent empirical investigation (Parasuramam *et al.*, 1985; 1988), the researchers found that consumers used ten determinants in their evaluation of the service quality process, with the most important determinants of service quality being reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding and tangibles.

Thus, a conceptual model concerning perceived service quality was proposed by Parasuraman et al. (1985) since when service quality has become an area of interest in marketing research (e.g. Cronin and Taylor, 1992, 1994; Parasuraman et al., 1988). Through an empirical test, Parasuraman et al. (1988) developed SERVQUAL from a modification of the ten dimensions proposed in 1985 to 22 items/five dimensions in 1988: tangibles, reliability, responsiveness, assurance, and empathy, where:

1. Tangibles-refer to the company's or service provider's physical facilities, equipments, dressed of their employees and communications material.
2. Reliability-refers to the ability of the service provider to perform the service accurately and dependably' as promised.
3. Responsiveness-refers to the willingness of the firm's staff to help customers and to provide the requested service prompt.
4. Assurance-refers to the knowledge and courtesy of the company's employees and their ability to inspire trust and confidence in the customer towards the service company.
5. Empathy-refers to the ability of the service provider to provide a caring and personalized attention to each customer.

In their study, the data on the 22 attributes were factor analyzed and resulted in five dimensions. Several researchers examined the properties of the SERVQUAL scale using data from the consumer sector. While some of them questioned the fivefactor dimensionality of the SERVQUAL scale, others provided it support (Parasuraman, 1991).

A decade later, Berry *et al.* (1994) summarized their collective research with ten lessons learned:

(1) Listening to customers precedes action.
(2) Reliability is essential.
(3) Customers want basic service.
(4) Poor service quality is a system design problem, not an employee problem.
(5) Good service recovery can overcome poor service delivery.
(6) Service excellence includes both outcome and process.
(7) Customers expect fairness.
(8) Service takes teamwork.
(9) Employee feedback is vital to service improvement.
(10) Leaders should serve employees.

Our survey asked bank customers to evaluate their service provider based on questions generated from the aforementioned determinants of service quality and lessons learned from years of service research.

Many are the companies that focus on strategies that overemphasize new sales, seriously neglecting the vital strategies related to customer loyalty and retention. If service providers knew how much it actually costs to lose a customer, they would make greater effort to retain them. Unfortunately, as Reichheld and Sasser (1990) point out, today's accounting systems do not capture the value of the loyal customer. Their study analyzed more than 100 companies in two dozen industries and found that the longer a company keeps a loyal customer the more the customer purchases each year. Also, year by year, loyal customers purchase more expensive items and are willing to pay more for existing products. As purchases rise, operating costs decline.

Loyal customers also provide very persuasive, free advertising. Reichheld and Sasser also report that by reducing defections by just 5 percent one bank generated 85 percent more profits. MBNA America found that a 5 percent improvement in customer retention increases its average customer value by more than 125 percent. In addition, Reichheld and Sasser found that many businesses lose 15 to 20 percent of their customers each year. Simply cutting defections in half will more than double the average company's growth rate. Hence, customer retention is another fundamental principle of customer service that this study will examine.

2.4 The impact of technology on service delivery

The last few years we have witnessed profound technological changes among which is the advent of electronic commerce (EC), or the exchange of products (tangible and otherwise) and payments via telecommunication systems (Kalakota & Whinston, 1997). Potentialities of this technology are remarkable (Sanders & Temkin, 2000).

Most industries have been influenced, in one way or another, by this promising new technology (Gunasekaran & Love, 1999; Kalakota & Whinston, 1997; Ng, Pan, & Wilson, 1998; Westland and Clark, 1999). However, nowhere has the presence of electronic comerce been more apparent than in the banking industry (eMarketer, 2000; Irish Times, 1999). Many banks have established presence on the Internet and many others are in the process of doing so. Using telecommunication systems and technologies, a bank can reach out to customers and provide them with not only general information about its services but also the opportunity of performing interactive retail banking transactions (Aladwani, 2001).

Electronic means of delivering banking services have been widely used by banks as an alternative service/sales channel to traditional banking (Nath *et al.,* 2001). Significant advantages of e-banking including cut-down transaction costs (ECB, 1999), decreased front-office staffing needs and elimination of time/place constraints are paramount for banking institutions (Polatoglu and Ekin, 2001; Howcroft *et al.*, 2002; Pikkarainen *et al.*, 2004).

Few would dispute the positive effects of e-banking on business success (Ibrahim, 2006) especially in highly deregulated and competitive financial markets where banks must always be in the process of improving their operational efficiency (Lymberopoulos and Chaniotakis, 2005), attracting more customers and encouraging their loyalty (Ibrahim, 2006).

The effects of electronic service delivery on business performance have attracted much research attention (e.g. Zeithaml *et al.*, 2000, 2002; Ibrahim *et al.*, 2006; Kuan *et al.*, 2008). However, the understanding of customers' perceptions of the quality of electronic services and their effects on customer satisfaction is far from complete (Lee and Lin, 2005; Ibrahim *et al.*, 2006).

Intense competitive pressures from globalization, deregulation and technology advancements (Lymberopoulos and Chaniotakis, 2005; Ibrahim *et al.*, 2006) have compelled banks to seek alternative channels to interact with their customers and keep pace with their ever evolving requirements (Singh *et al.*, 2002; Lee and Lin, 2005). As customers become more demanding, e-service delivery appears to be implicit for banks in their quest to increase customer base and encourage loyalty (Lee and Lin, 2005; Semeijn *et al.*, 2005). Understanding customers' responses to electronic services is of great importance for bank managers as e-banking brings customers just a “click” away from competition (Gommans *et al.*, 2001).

As already has been mentioned, technology has increasingly been employed in the delivery of services, especially the last twenty years. The adoption of technology into service industries is becoming a strong trend as service providers are now being urged by industry bodies to invest in technology (Australian Coalition of Services Industries Annual Review, 1997a; 1997b) as a way of securing their future in the electronic age. The role of technology in service organisations as discussed by Kelley (1989) has been predominantly employed to reduce costs and eliminate uncertainties.

In the service sector, technology has been used to standardise services by reducing the employee/customer interface (Quinn, 1996). The majority of consumers are now more than ever referring to opt for a technology-based service delivery over that of the employee (Voice, The European Magazine for Applications of Computer Telephony, 1997). This emerging trend raises some important issues about the impact that technology will have on service quality and customer satisfaction levels. To what extent can the employee/customer interface be removed from the front line and still maintain or improve the levels of customer satisfaction?

Dabholkar (1996) suggests that little is known about consumer preference for self-service options, particularly those that are technological based. Furthermore Cowels and Crosby (1990) have researched tolerance levels of consumers' preferences for using technology instead of the human touch. The growth of technology in the delivery of services has had a dramatic effect on the nature of the core offering.

Dabholkar (1994) discusses how technology- based services have made new service delivery options available to organisations, making customer participation more widely possible. Customers use touch screen ``kiosks" to order take-away food, whilst banks have widely distributed automatic teller machines to withdraw, transfer funds or make deposits into accounts. Accessibility has been extended through technological developments as well as the introduction of new service delivery methods that allow consumers to do business with service firms from the home and office.

2.5 Impact of technology on the banking sector

In the categorisation of services in technology- based service delivery options Dabholkar (1994) suggests there are a number of relevant classifications that will apply to industries employing technology based service delivery. The classification analyses ``who" delivers the service. That is, person to person, where the employee uses the technology or consumer to technology, such as the use of an ATM. The next categorisation looks at where the service is delivered. Either on the service firm's sites themselves, at the customer's home or office or at a ``neutral" site such as an ATM located at an airport. The final categorisation looks at the contact the customer has with the service operation, either direct or indirect such as in the case of telephone banking. Dabholkar (1994) claims that when the customer is in direct contact with the technology there is greater control such as with Internet banking.

However, if there is an absence of direct contact, such as with telephone banking (since the technology itself is not visible to customers who are able only to press numbers on their telephone keypad) it is assumed that there is less control perceived by the customer during this transaction.

Bateson (1984) has conducted a number of studies on the need for consumers to have control during service encounters. When a consumer freely chooses to use technology as a form of service delivery the impact is high in terms of quality attributes. Some of the quality attributes that are highly important to consumers are efficiency and speed (Bateson, 1984). This concept is supported by Weatherall *et al.* (1984), who state that consumers are thought to have a positive perception of technology based service attributes since they believe technology will deliver a faster and more efficient service than that of the employee.

Gummesson (1991) also stresses that reliability and user-friendliness are important attributes in the evaluation of technology-based services. Dabholkar (1994) stipulates that there should be flexibility in the design of the technology to allow customers to make changes during the transaction and make available a customer service adviser if required, with ``minimum waiting". This also raises the design issue of sufficient menu options for ATM/Telephone and Internet bankers. In most eases the transaction occurs in a neutral location and the availability of an employee may not always be feasible since these facilities often operate 24 hours a day, seven days a week.

Having embraced the concept of service quality relatively recently, banks now find themselves operating in a highly competitive and fragmented marketplace, characterised by increasingly empowered and financially literate consumers. This fact, together with the proliferation of direct low cost competition from recognised high street brand names and dedicated stand-alone Internet banks make the trading environment for traditional banks very difficult (Howcroft and Durkin, 2000; Durkin and Howcroft, 2003).

As a result customers are increasingly interacting through remote technological channels, such as telephone and/or the internet and the implications for bank-customer relationships are potentially of key importance. However, there appears to be growing uncertainty as to what is best practice in the area of Internet banking. The viability of virtual stand-alone Internet banks, for example, seems questionable with many now "tangibilising" their offer through the opening of high street branches (Durkin and Howcroft, 2003). This raises important questions regarding customer acceptance of online-only banks and what are the essential components of a "clicks and mortar strategy" (Yahklef, 2001; Holmsen *et al.*, 1998).

2.6 Electronic Banking and its Implications

With pressure on bank margins coming from new competitors and from the low interest rate environment currently prevailing in the European Union, banks remain under increasing pressure to reduce costs. Banks have responded by re-engineering their internal and external delivery processes in the hope of achieving efficiency gains (Lynch, 1996). Branch networks have been rationalised and technology has been increasingly used in an attempt to maintain (if not increase) market share and reduce costs. However, the adoption of technology orientated channels raises important questions for the management of bank-customer relationships. Most of these questions arise out of the basic fact that new and emerging delivery channels, in contrast to branch networks, are remote in the sense that bank-customer interactions do not involve face to face contact.

"Electronic banking" refers to the new way that banks have made available to their customers to access their accounts, pay their bills, manage their money and use various other services. The term includes any banking activity that is accessed via electronic means such as the inter-net, ATMs, telephones, etc (Zask, 2001; Simpson, 2002). Mu (2003) defines e-banking as *"the provision of retail and small value banking products and services through electronic channels as well as large value electronic payments and other wholesale banking services delivered electronically"*.

A consequence of advances in technology-based service delivery, e-banking has influenced the ever increasing competition in the financial services sector (Sathye, 1999; Banks, 2001). In their quest for success in highly deregulated and competitive markets, banks must increase their effectiveness in a multitude of ways. Operational efficiency must be improved and costs must be cut, while customer satisfaction and loyalty must be encouraged and new customers must be attracted (Polatoglu and Ekin, 2001; Pikkarainen *et al.*, 2004; Ibrahim, 2006). The industry has recognized the potential of e-banking as a facilitator of improved performance (Ibrahim, 2006).

Recent research has shown that many banks are now considering taking the separate virtual business back under the parent brand due to spiraling costs (Boss *et al*., 2000). It is reported that many of the new virtual banks having spent huge resources on promotional activity are generating relatively little interest amongst consumers. According to one commentator, online banking has not really succeeded; many customers still need the reassurance of visiting their branch (Durkin and Howcroft, 2003).

A key aspect in banks embracing technological platforms and delivery systems is the impact this will have on bank-customer relationships. An editorial in *Bank Marketing*

(1998) cautions that "banks are slipping on almost every measure of relationship quality…one reason is the vulnerability of relationships in an alternative delivery environment". Significantly the editorial observes that "technology turns services into commodities; if you want differentiation you invest in people" (*Bank Marketing*, 1998, p.1). This echoes the sentiments of an argument made over 25 years ago by Mears *et al.* (1978, p.112) who having conducted research on ATM adoption, stated that the bank-customer relationship "results the inhuman coldness of automated processes".

While the importance of technology in bank-customer interactions remains undisputed, commentators, nevertheless, emphasize how customer evaluation of the encounter is shaped by social and personal forces (Hollander, 1985; Czepiel, 1990a). It is argued that the social content of service encounters often seems to overshadow any economic rationale that may offer a more expedient alternative. Indeed anthropologists hypothesize that perceived honesty in exchange relationships is inversely related to social distance (Durkin and Howcroft, 2003). Hewer and Howcroft (2000) support this contention when they highlight that "remote channels may undermine consumers feelings of trust and adversely affect customer loyalty and retention".

The development of close social relationships ultimately approaches what is known as "psychological loyalty", i.e. loyalty which seems contrary to self-interest. According to Solomon *et al*. (1985, p.100) "in pure service situations…customer satisfaction and repeat patronage may be determined solely by the quality of the personal encounter". Dwyer *et al*. (1987, p.12) similarly support the importance of "socialization" in the relationship arguing that "relational exchange participants can be expected to derive complex, personal, non economic-satisfactions and engage in social exchange".

There is, however, limited empirical research on the propensity and motives of customers to use technology when interacting with their banks (Zeithaml and Gilly, 1987; Moutincho and Median, 1989). In the main such research has focused on the adoption of automated teller machine technology (ATMs). The study completed by Marr and Prendergast (1991, 1994) found that the main factors encouraging consumer acceptance of ATMs were time convenience, place (locational) convenience and simplicity of use. Interestingly the same study examined motives for consumers not using technology and found that a preference for dealing with humans was also a key factor. This was especially true for older, less educated consumers (Durkin and Howcroft, 2003).

Roth and Van der Velde (1989) argued that the role of branch staff will be even more critical in the future as technology becomes more pervasive, particularly in the delivery of non-routine and more complex financial services products. Roth and Van der Velde (1989, p.32) stated that "…people are necessary for establishing the initial customer relationship and are essential for maintaining and servicing customer accounts".

This viewpoint supports a key point made by Chase (1978) more than a decade earlier when he stated that "technological devices can be substituted for some jobs performed by direct contact workers…the attitude of the customer will determine the ultimate quality of the experience".

2.7 Customer expectations

Parasuraman *et al*. (1985) designed a conceptual model of service quality that decades later still serves as the foundation for understanding customer expectations and service performance. The researchers conducted in-depth interviews with executives in four nationally recognized service firms and conducted focus group interviews with consumers of those services providers. The researchers discovered that there are a number of ``gaps" or failure points between customer expectations and service provider performance. The pivotal gap that all others hinge upon is the gap between executives' assumptions about their customers' expectations and actual customers' expectations. Parasuraman *et al*. found that executives' assumptions about their customers' expectation were frequently wrong. Executives often make their own assumptions, but the only way to understand customer expectations is to ask them directly! Thus, our study intends to investigate whether banks consistently ask customers, in any direct way, about their expectations. Identifying and understanding customer expectations is one of the most basic, yet perhaps most often overlooked, principles of marketing.

2.8 Customer retention

Many companies focus on strategies that overemphasize new sales, seriously neglecting the vital strategies related to customer loyalty and retention. If service providers knew how much it actually costs to lose a customer, they would make greater effort to retain them. Unfortunately, as Reichheld and Sasser (1990) point out, today's accounting systems do not capture the value of the loyal customer. Their study analyzed more than 100 companies in two dozen industries and found that the longer a company keeps a loyal customer the more the customer purchases each year. Also, year by year, loyal customers purchase more expensive items and are willing to pay more for existing products. As purchases rise, operating costs decline. Loyal customers also provide very persuasive, free advertising. Reichheld and Sasser also report that by reducing defections by just 5 percent one bank generated 85 percent more profits. MBNA America found that a 5 percent improvement in customer retention increases its average customer value by more than 125 percent. In addition, Reichheld and Sasser found that many businesses lose 15 to 20 percent of their customers each year. Simply cutting defections in half will more than double the average company's growth rate. Hence, customer retention is another fundamental principle of customer quality service perception (Allred and Addams, 2000).

2.9 Service quality using importance-performance measurement

When customers evaluate the quality of the service they receive from a banking institution they use different criteria which are likely to differ in their importance, usually some being more important than others. While several criteria are important only a few are most important. These determinant attributes are the ones that will define service quality from the consumer's perspective (Loudon and Della Bitta, 1988).

However, many established models of service quality have tended to focus on expectations and marginalise the issue of importance. Thus, for example, the most widely used model to measure perceived service quality was developed by Parasuraman *et al.* (1985; 1988). This conceptual model indicated that customers' perception of service quality was influenced by a series of (expectations-performance) gaps that hinder the delivery of high service quality. These disconfirmation-based models have been the object of major criticism, including ambiguity in the definition of expectations and its applicability to a variety of industries (Teas, 1993, 1994; Cronin and Taylor, 1992, 1994). Another weakness of this model is that for it to function correctly, expectations must remain constant (Joseph *et al.*, 1999).

However, Carman (1990) maintains that expectations change with familiarity with the service. Finally, the framework does not explicitly consider the relative importance of different attributes of service (although it may be that expectations serve as some kind of proxy for importance, at least in terms of decisions regarding the management of service quality).

Because of its impact on consumer decision making, the explicit consideration of importance in service quality may provide additional useful insights. Martilia and James (1977) developed a simple importance/performance technique whose most attractive feature is that the mean importance and performance results can be graphically illustrated on a two dimensional grid. The four quadrants in the grid can provide in-depth information on each of the attributes tested. According to Ortinau *et al.* (1989), each of the quadrants can be described as follows:

. Concentrate here: This is where customers feel that a specific attribute is very important but its performance is not satisfactory.
. Keep up the good work: is where customers feel that a specific attribute is very important and are satisfied with its performance.
. Low priority: where customers are not satisfied with the performance of a specific attribute but they do not perceive it as being important.

. Possible overkill: customers are satisfied with the performance of a specific attribute but the customers do not perceive it as being important.

Martilia and James (1977) state that several issues must be dealt with for the proper application of this technique. The first issue is the determination of the attributes to be measured. They suggest the use of qualitative research techniques such as focus groups, and unstructured personal interviews, to identify the potentially important factors. The second issue is the separation of the importance measures and the performance measures. They assert that if both are measured together, a bias will be introduced that will render the whole exercise invalid. For Ennew *et al.* (1993), the issue is to develop a better measurement for Service Quality. They state that the qualitative nature of service quality implies that cardinal scales of measurement are inappropriate, but the process of applying ordinal rankings (importance/performance) to concepts is well established as a research methodology. They argue that a comparison of mean scores on the importance of service attributes provides a straightforward measure of how well a service meets customers' needs.

Hemmasi *et al.* (1994) redeveloped the Importance-Performance grid by drawing the axes based on the overall importance and performance means rather than based on the mid point of the scale. Arguably, the Hemmasi *et al.* (1994) grid provides a useful alternative tool for strategy development as it provides a clearer picture of the factors that are critical for resource allocation. Research using the Importance-Performance measurement has been conducted in a number of industries including food, housing and education (Martilla and James, 1977; Joseph and Joseph, 1997) and in the banking industry (Ennew *et al.*, 1993). Bearing in mind all of the above and notwithstanding the widespread use of SERVQUAL, it is considered that the Hemmasi *et al.* (1994) method is the most appropriate way of measuring service quality in the banking industry (Joseph *et al.*, 1999).

2.10 SERVQUAL: an instrument to measure service quality

Various models have been developed for measuring perceptions of service quality (Gro¨nroos, 1983; 1990; Parasuraman et al., 1985; 1988;, 1991; Stafford, 1996; Bahia and Nantel, 2000; Aldlaigan and Buttle, 2002). The SERVQUAL model of Parasuraman et al. (1988) proposes a five-dimensional construct of perceived service quality: tangibles; reliability; responsiveness; assurance; and empathy – with items reflecting both expectations and perceived performance. The SERVQUAL approach has not gone without criticism however. There has been concern about the central role of expectations and the significance of a subtractive “gap” as a measure of quality (Asubonteg et al., 1996; Buttle, 1996). More importantly, the universality of the SERVQUAL dimensions across different types of services has been questioned (Babakus and Mangold, 1989; Carman, 1990; Bresinger and Lambert, 1990; Finn and Lamb, 1991; Babakus and Boller, 1992). Carman (1990) for instance, found that it is often necessary to incorporate additional items in certain dimensions because they are particularly important for some service categories. A further critique of SERVQUAL concerns its emphasis on service and product dimensions, and its neglect of other dimensions of the marketing mix – especially price (Gilmore and Carson, 1992).

By using this method banking administrators can identify the potential problem areas. Administrators can also recognise the spheres that are important to their customers and make sure that the performances of those areas are to the customers' satisfaction.

CHAPTER 3

METHODOLOGY

3.1 Setting

The Banking Sectors of Greece

Since the development of the banking sector can play an integral and pivotal role in the successful completion of the transition process emphasis in south-eastern countries was placed on its reform. A first step in banking reform was the creation of a two level banking system, separating commercial from central banking functions. Though, the financial sector in its initial phase advanced more in terms of quantity rather than quality. The number of financial institutions quickly multiplied through the privatization of state banks and the establishment of new private institutions. In some countries the sector was immediately opened up to foreign interests as well (Glaveli *et al.*, 2006).

The following section provides a synoptic view of the most significant changes that took place from 1989 to the present. This review will help us interpret the results of our survey and explain the evolving role of service quality as a source of competitive advantage in the banking sector of Greece.

Until the 1980's, the Greek banking system was heavily regulated in all areas of activity. The price regulation and various credit controls imposed by the government created a system in which competition was almost unknown. A more competitive banking environment has gradually been achieved through the deregulation of interest rates, the abolition of various credit controls, development of the capital market, competition from non-bank institutions, the free movement of capital flows, and the entry of banking institutions from other European countries into the Greek market (Noulas and Glaveli, 2002; Spathis *et al.*, 2002; Petridou and Glaveli, 2003).

In addition, the introduction of the Euro decreased margins and revenues to banks. Banks have lost currency-conversion service fees, experienced compression in the spread of interest rates, and incurred establishment costs associated with the new currency (Kosmidou and Spathis, 2000). Takeovers, mergers and acquisitions have been important responses, designed to resist competition and traditional revenues loss through: consolidation of market position, diversification on the basis of customer characteristics, increase of capital base and economies of scale and scope resulting in advantages for both the organisations and the customers (Davies, 1995; Moshos and Fraggetis, 1997).

Furthermore, the eroding of the demarcations between different types of intermediaries, led banks to formulate financial conglomerates and become more like “financial supermarkets” where packages of a great variety of financial services are sold. Banks expected that through the acquisition of insurance companies and investment banks and the promotion of a wider range of products would overweight the loss that they have started to suffer (Glaveli *et al.*, 2006). The compression of profits stimulating a positive orientation towards managing risks and returns, tracing new profit centres and offering more customised services and products and a re-orientation of banking strategy towards quality service provision (Noulas and Glaveli, 2002).

The sector’s current status is the result of the wave of mergers and acquisitions mentioned above. The new environment has attracted a large number of foreign banks into the dynamic sector. Currently, there are operating 24 domestic banks and about the same number of foreign offices, 15 cooperative banks, and 2 credit institutions, the Postal Savings Bank and the Deposits and Loan Foundation. The market is highly competitive, despite the quite high concentration of the banking sector.

The Greek banking industry consists of 62 banks, 22 of which foreign branches and 40 established in Greece. It operates through 3,805 outlets and 64,667 employees. Business concentration is heavy, with the top six banks controlling more than 70% of total assets (HBA, 2007). The system is highly deregulated and competitive. The entry of Greece into the European Monetary Union (EMU) has compelled banks to improve their efficiency in order to defend their market shares from foreign competition and their profits from pressures on interest rates spreads (Lymberopoulos and Chaniotakis, 2005). Banks have made considerable efforts to modify their organizational structures and change their traditional ways of conducting business. A gradual transformation of outlets from large, inflexible facilities to smaller service and sales oriented units is evident. The 20.05 employees per outlet of 2001 have been reduced, by almost 15%, to less than 17 in 2006 (HBA, 2007).

Technology has been widely adopted in service delivery. From 2000 to 2005, ATMs have been almost doubled from 3,605 to 6,258, with offsite ATMs practically tripled from 758 to 2,250 (HBA, 2007). Although the usage of internet in the country is among the lowest in the EU and only 13% of Greek users perform online banking transactions (Observatory for the Greek IS, 2007), most major banks invest on internet service delivery in order to protect or improve their innovator image (Valakas and Chaniotakis, 2000) as customers are more likely to trust proven innovators (Jayawardhena and Foley, 2000). For similar reasons, major banks also offer phone services, even though sues related to phone banking are not fully resolved yet (Marinakis and Karanikolas, 2007).

Summarising, we could support that the changes in the ownership status of the banks (privatisation) and the closure of insolvent institutions, the adoption of regulations according to international standards and practices, the entry of foreign banks and the implementation of tighter and more effective supervision by the central banks and currency boards have substantially transformed the banking sector in the Greek economy (Glaveli *et al.*, 2006). Particularly the invasion of foreign banks had a two dimension effect on the sectors development. On one hand they introduced modern risk management techniques and financial management know-how and on the other hand ensured that there is plenty of competition in the banking system, despite the quite high concentration of the banking sector (Hackethal *et al.*, 2003). This has in turn affected the emphasis given on and the level of quality of the service provided (Glaveli *et al.*, 2006).

3.2 Research Instrument and Data Collection

Data for this study was collected through a three section survey instrument (Appendix 1). Section one dealt with respondents' demographics including their usage of e-banking services. Sections two and three explored importance and performance perceptions of respondents, across a battery of 30 salient banking services attributes. Scores were measured in 7-point Likert scales.

The development of the battery of attributes involved literature reviewing and conducting two focus groups consisting of banking customers and employees. The literature review produced a list of 50 items in total (Parasuraman *et al.*, 1985, 1988; Cronin and Taylor, 1992, 1994; Bahia and Nantel, 2000; Lociacono *et al.*, 2000; Zeithaml *et al.*, 2000, 2002; Wolfinbarger and Gilly, 2001; Ibrahim *et al.*, 2006; Tsoukatos and Rand, 2006) that after being discussed by the focus groups it was reduced to the list of 30 items that was included in the aforementioned research instrument after it was translated several times back and forth from Greek to English, to ensure functional equivalence.

A convenience sample of banking customers was surveyed, consisting of adult Greek residents who had performed at least one banking transaction during the previous month. 91 usable questionnaires were collected by employing the "mall intercept" technique (Rice and Hancock, 2005). The method of personal interview was chosen as superior in perceptual or attitudinal surveys (Groves, 1989). In addition, face-to-face administration maximizes response rates and researcher availability to answer to respondents' questions (Ibrahim *et al.*, 2006). The response rate reached 50.2%.

3.3 Data Analysis

Data analysis involved: a) reliability analysis for the statistical purification of the 31 item battery, b) factorial analysis of the refined scale and c) importance-performance analysis of the data.

3.3.1 Reliability Analysis

The Gronbach's α coefficient was employed for the purification of the scale. Based on the "increase of α if item deleted" criterion (Pallant, 2001) the purification process led to a 22 scale of banking services attributes (Table 1) after removing 8 of the initial items (Table 2). The 'α' value of the resulting 22 item scale was 0.976. The analysis then proceeded to step 2, factorial analysis.

Table1. Purified Service Quality Scale for Banking Services

Variable name	Description
Modeqte	Modern equipment and technology
Perprom	Perform within the promised time
Covneed	Products and services that cover customers' needs
Clearco	Issuing contracts with clear and unambiguous terms
Sincint	Showing sincere interest in resolving customers' problems
Peright	Perform right the first time
Flawdoc	Issuing flawless informative documents
Infcust	Informing customers exactly on when they are going to be served
Prompts	Prompt Service
Resphon	Responding honestly to customers' requirements
Helpcus	Employees always willing to help customers
Instcon	Employees instilling confidence in customers
Uptodse	Delivering up to date products and services
Emplinf	Employees capable of fully informing customers
Courtem	Courteous employees
Patiemp	Employees responding to customers' requirements with patience
Safeser	Providing safe e-banking services
Nontech	Employees avoiding use technical terms in responding to customers
Indserv	Providing individualised customer service
Perserv	Having employees providing personal service to customers

Table1. Purified Service Quality Scale for Banking Services	
Variable name	**Description**
Interest	Having customers' interests at heart
Undneed	Understanding customers' needs

Table1. Removed Items	
Variable name	**Description**
Goodfac	Good looking facilities
Neatdre	Neatly dressed employees
Comater	Good looking communicative material
Compric	Competitive pricing
Equserv	Providing equally good services at all times
Listcus	Employees showing interest in listening to customers
Opehour	Convenient opening hours
Calchri	Calling regular customers by their Christian names

3.3.2 Factorial Analysis

The *n=91* sample was found adequate for factor analysis on the basis of the KMO measure of sampling adequacy (0.927) and the Bartlett's test of sphericity (significant at $p<0.001$) (Nunally, 1978; Tabachnick and Fidell, 2001). As analysis involved relations between variables, the R-type approach was employed for factor analysis (Stewart, 1981). For initial factor extraction the principal components method was used while the rotated solution produced by the direct oblimin method that allows for possible factor intercorrelations (Tabachnick and Fidell, 2001). The number of factors to retain was decided on a combination of the roots and the scree test criteria (Stewart, 1981). The threshold for meaningful factor loading was set to 0.45 as loadings below this size are considered poor (Tabachnick and Fidell, 2001). The internal consistency of the factor structure was examined by the Gronbach's alpha coefficient (Pallant, 2001).

3.3.3 Importance-Performance Analysis

As a third step, Importance-Performance (IP) analysis of the data was conducted (Martilla and James, 1977; Hemmasi *et al.*, 1994). This type of analysis draws importance-performance (IP) maps by placing each service element in a two-dimensional grid with coordinates mean “performance” and “importance” ratings. A four-quadrant matrix is produced by dividing the horizontal and vertical dimensions into “high” and “low” areas using the grand means of observed importance and performance scores (e.g. Martilla and James, 1977; Hemmasi *et al.*, 1994; Aigbedo and Parameswaran, 2004).

The High Importance/Low Performance quadrant is labelled “concentrate here”, and contains elements that should be given top priority (Graf *et al.*, 1992). The High Importance/High Performance quadrant is labelled “keep up the good work” and contains quality strengths (Graf *et al.*, 1992). Elements positioned in the Low Importance/Low Performance quadrant, labelled “low priority”, do not require immediate attention (Crompton and Duray, 1985). Finally, the Low Importance/High Performance quadrant labelled “possible overkill” contains elements that, although not important, are over-resourced. IP maps aid decision making on improving the deployment of quality resources by identifying service areas that should be emphasized or de-emphasized (Graf *et al.*, 1992; Skok *et al.*, 2001). An extension of the method is the iso-line, an upward 45° line from the grid’s origin, on which importance equals performance. The area above the line is that of quality challenges where the larger the distance from the line the greater the priority (Skok *et al.*, 2001).

CHAPTER 4

RESULTS AND DISCUSSION

4.1 Analysis of Underlying Factors

Factor analysis produced a three factor structure explaining 74.7% of the variance with the principal factor explaining 64.6% and factors two and three explaining 5.5% and 4.7% of the variance respectively.

The communalities of all variables were in excess of 0.50, high enough for "indicating sufficient explanation" (Hair *et al.*, 1998). The internal consistency of the factorial structure was examined by the Gronbach's alpha coefficient, being 0.96 for the primary factor and 0.93 and 0.92 for factors two and three, therefore, indicating good internal consistency (Nunnally, 1988). Cross-loadings were observed in only two cases, suggesting good discriminant validity of the solution (Hemmasi *et al.*, 1994). Appendix II contains the SPSS output for factorial analysis. The three identified dimensions of banking services are:

A – Service Process (*assesses the range, consistency and innovation of the bank's products*)-(64.6% of variance) – consisting of 10 responsiveness, assurance and empathy items.

B - Reliability (*measures the bank's ability to deliver the service you have been promised accurately and without error*)-(5.5% of variance) – delivering the service as promised (5 items)

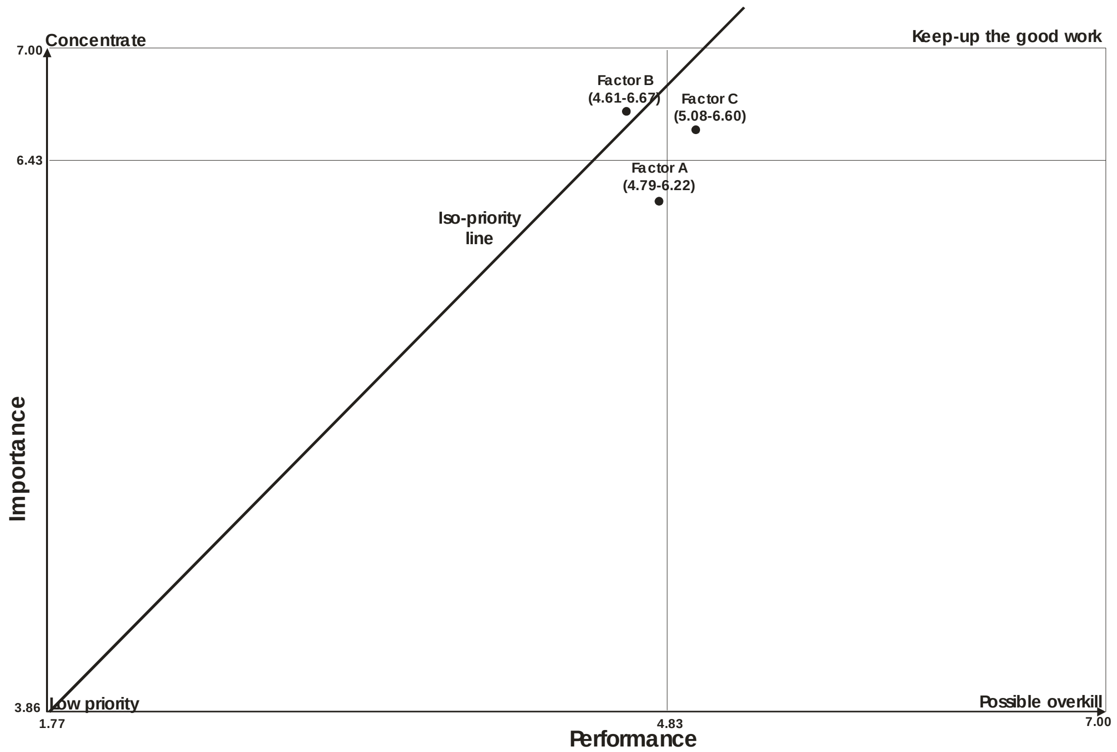
C - Tangibles (*assesses the appearance and cleanliness of a bank's physical infrastructure*)-(4.7% of variance) – the tangible elements of service (7)

Finally, the loadings of one item were below the threshold of meaningful loading across all factors. Hence this item had to be excluded from the analysis.

4.2 Importance – Performance Analysis

The first step of IP analysis involves the placement of the three service dimensions in the IP grid (Figure 1).

Figure 1. The Importance – Performance Grid



Factor **A – Service Process** is placed in the "low priority" quadrant while factor **B - Reliability** in the "concentrate here" quadrant and factor **C- Tangibles** in the "keep up the good work" quadrant, indicating respondents' perceptions that: a) the importance of dimensions to customers is, in descending order, Reliability, Tangibles and finally Service Process b) the industry matches its customers requirements by deploying the appropriate quality resources to maintain a high level of Tangibles and, although this dimension is not important for customers, to Service Process. However, the industry seems to underperform with regard to Reliability and needs to intensify its deployment of quality resources towards this particular dimension to match its customers' requirements.

The examination of the iso-priority line provides evidence on the priority that banks should place to improving their performance in each and every one of the dimensions. All dimensions lie above the line, an indication of unfavourable respondents' perceptions of banks' performance. However, the distances of dimension to the iso-line are, in descending order 1.457 for Reliability, 1.075 for Tangibles and 1.011 for Service Process. The order of these distances reflects the industry's priority of allocation quality resources towards the three dimensions. Service improvement in Reliability should be the first priority, followed by improvements in the Tangible elements of service and then in the Service Process.

CHAPTER 5

MANAGEMENT IMPLICATIONS

This study identified salient service quality attributes, in three distinct dimensions: Service Process, Reliability and Tangibles. The analysis exposed respondents' perceptions that banks underperform in being synchronized with the needs of their customers in all service areas. A detailed examination of the IP maps (Figure 1) revealed alternative strategic responses to particular service areas. This chapter discusses the implications of findings.

First, a general point is that Greek banks are expected to do better in upgrading their provided services in order to enhance customers' perceptions in all service. Improvements in reliability should be banks' immediate priority. Overall reliability improvement also augments a bank's service image leading to attracting new customers (Jayawardhena and Foley, 2000). Furthermore, the holistic upgrade of reliability services affects favourably a bank's overall company image. This is critical in highly competitive financial services markets that increasingly attract powerful foreign players (Ibrahim et al., 2006).

Second, the placement of Tangibles within the "keep up the good work" quadrant must be appraised in combination with the significant effects of improvements in this dimension on customer satisfaction. Greek banks should continue to explore possible technological and organizational solutions to improve their performance in this service area. The fact that Tangibles fall into the "keep up the good work" quadrant indicates that banks have recognized the importance of this attribute to their customers. The challenge is to further improve their services to become synchronised with customers' needs.

Third, the placement of Service Process into the “low priority” quadrant indicates that the deployment of resources towards this dimension is of lower priority. The relative unimportance of Service Process can be interpreted on the basis of customers’ cultural characteristics. The Greek society is high in Power Distance (the extent to which social inequalities are tolerated and expected) (Hofstede, 1980, 1991; Tsoukatos and Rand, 2007). At the same time retail banking customers are weak in relation with their banks that are powerful financial institutions. Relatively weak customers with high Power Distance view themselves as unimportant to powerful service providers (Furrer et al., 2000) and they do not expect personalised service (Donthu and Yoo, 1998). However, as societies move forward cultural characteristics are changing. Greek banks should always be prepared to confront a discreet customers’ shift towards placing more importance to the Service Process. Greek banks must take discreet actions towards improving their performance in this particular service area although currently such improvements may not have a direct effect on customer satisfaction but only to the banks’ corporate images.

Finally, Greek banks should be aware that service quality is not static. As technological, economic and social trends affect customers’ preferences and needs, there will be changes in both importance and performance ratings. Frequent monitoring of customers’ perceptions would contribute towards removing any errors related to being synchronized with their customer base.

CHAPTER 6

LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

Although due care was taken regarding methodological considerations, the study suffers a number of limitations which may also be viewed as opportunities for further research. First, the study focused on a single industry. Given earlier research findings on the limited generalizability of quality measurement scales, future research should encompass multi-industry settings to examine a wider combination of situational variables. Cross-national repetitions will add to the managers' understanding of the effects of culture on e-service quality.

Second, although the sample size was found adequate, convenience sampling, common in management studies (e.g. Brady et al., 2002; Wang et al., 2004; Semeijn et al., 2005), was used for data collection. Hence, issues such as location and representativeness may have affected the generalizability of findings.

Third, although the battery of items was considered appropriate for measuring service quality and factor analysis produced a set of easily interpretable dimensions, more research is needed to assess the replicability of findings. The stability and reliability of service quality scales (including SERVQUAL and SERVPERF) have been challenged by previous research. The ever increasing impact of technology results in rising expectations as a consequence of escalating levels of service delivery (Heskett et al., 1990). Such changes need longitudinal research.

Fourth, the study adopted a rather generalised approach that did not take into account the impact of respondents' demographic characteristics on customers' demands and preferences. Future research should examine possible variations in the needs and demands of demographically dissimilar customers' segments and identify the need of different banks' responses.

A final limitation is associated with the use of IP analysis for assessing service quality. The appropriateness of the technique is testable (Oh, 2001) and should be the subject of further research.

CHAPTER 7

CONCLUSIONS

This study contributes to both academia and practice. With regard to academia it builds on previous research on the assessment of the quality of services provided, especially in the relatively under-researched area of e-banking. Conclusions on the cross-cultural applicability of quality models are of particular research interest especially to the extent that the setting of this study is culturally differentiated from the Anglo-Saxon settings (Hofstede, 1980) from which most marketing literature originates.

With regard to practice, the study provides useful decision making tools for managers to assess the quality of services and accordingly allocate quality improvement efforts and resources to improve customer satisfaction that will, in turn, increase loyalty and boost corporate image.

Although the combination of situational variables in Greek retail banking may be different from other industries, the methodological framework of the study is applicable to every ser-vice setting. Hence, a variety of industries may benefit by replications of this study.