

# **MARKETING OF FINANCIAL SERVICES**

## **Lecture Ten**

### **Service Quality and Productivity in Financial Services Marketing**

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## WEEK TEN

### 10.1 Introduction

Welcome to week ten lecture! We have now covered more than 75% of course work for this unit. You have really made great effort and hope we move to the end of the course together. We have now looked at the 7Ps of marketing of financial services that are useful in developing a marketing strategy. We now turn to service quality. Customers are always looking for high quality services and financial institution also want to offer high quality services. But how do financial institutions and their customers measure quality and how can it be enhanced? This is the subject of discussion in this lecture.

### 10.2 Intended Learning Outcomes

At the end of this lecturer, you will be able to:

- a) Define quality in financial service offerings
- b) Describe financial service quality dimensions
- c) Discuss financial service quality delivery gaps
- d) Examine ways of service recovery

Customers expect quality service in any financial institution. Quality is a major determinant of customer satisfaction. Satisfaction is the degree to which service delivered meets customer expectation. There is therefore a clear connection between customer satisfaction and quality of service delivered. Customer satisfaction is determined by factors such as service features, customer emotions, attributions for service success or failure, perceptions of equity or fairness other consumers, family members and co-workers. Hoffman (2009) notes that delivering quality services has many benefits higher customer satisfaction, positive word of mouth, good publicity, repeated purchases, and increases in market share. However, the price to be paid is high in terms of understanding customers' needs, specifying quality standards designing service delivery systems and procedures, implementing suitable human resources policies and developing a service quality information system to assess the firm's overall performance.

### 10.3 Definition of Service Quality

Various definitions of quality have been put in place. For instance, Crosby, (1984) defines quality as 'conforming to requirements' implying that organizations must establish requirements and specifications while Juran (1982) views it as 'fitness for use' which basically looks at ways of satisfying customers' needs. Garvin (1988) in attempting to define quality developed various perspectives on quality such as: The transcendent view (innate mark of excellence); the product-based approach (quality as a precise and measurable variable); user-based definition (quality lies in the eyes of the beholder) and value based approach (affordable excellence).

From the various definition we can define quality financial services as perceived affordable excellent services that meets or exceeds customer expectation. This implies that financial customer has certain expectation depending on how much they are willing to spend and that if the service provider meets or exceeds the expectation then they will perceive that as high-quality service.

#### **10.4 Dimension of Services Quality**

Various scholars such as Zeithaml and Bitner (2000), Gronroos (2000) and Johnson, Silvestro, Fitzgerald and Voss, (1992) have identified various dimensions of a service. For purpose of this class, we will discuss quality dimensions highlighted by Parasuraman, Zeithaml and Berry (1985; 1988), who developed 10 dimensions of service quality

- a) **Reliability:** This is the ability of financial institutions to perform the promised service dependably and accurately. It is particularly important that these firms deliver core attributes of services to meet customer expectation and beyond.
- b) **Responsiveness:** The willingness to help customers and to provide prompt service. The financial service provider employees must demonstrate to their customers that they are ready to serve them, address their problems and concerns without procrastinating. They must show attentiveness, flexibility, and improve speed of service delivery depending on customer's request.
- c) **Tangibles:** This has to do with appearance of physical facilities, equipment, personnel, and communication materials in the service center. When financial customers visit the physical facilities where the service is delivered, they will see the size and shape of the building, location, equipment being used, the dressing of staff delivering the service all of which will communicate to them about service quality. The financial service provider must be very deliberate in ensuring that they keep state of the art facilities in way to create right impression about service quality.
- d) **Communication:** Keeping customers informed in a language they can understand. The financial service provider must use language familiar to customers and where they use technical terms like fixed account, debentures, treasury bills and bonds, they must be willing to explain to customers the meaning in a way they understand. If they have to keep customers waiting for a particular service, they have to make them aware of the processes being followed and probably how long the service would take before it is delivered.
- e) **Credibility:** The ability to convey honest, trust and confidence. Financial services business is one based on honesty, integrity, trust and confidence. The suppliers of such services must live to this customers expectation by the way they conduct business, the language they use, level of consistency and they way they interact with the customers. In case of a problem, they must explain it clearly to customers and how it will be addressed to avoid developing any mistrust.

- f) **Security:** This entails safety in physical, financial and confidentiality. The financial service provider must demonstrate to the customer that they are safe inside service facilities and that their accounts are also safe. This is a big concern in the days characterized with cybercrimes and hacking of accounts due to greater technological advancement.
- g) **Competence:** The service employees must demonstrate to customers that they have the required skills and knowledge to serve their customers. This is done by ensuring that they consistently give correct information, respond appropriately to customer queries, and in case of a technical problem, they can easily solve it or refer it to the right person.
- h) **Courtesy:** This is expression of politeness, respect, and friendliness to customers by the employees. The financial customers have expectation that they would be welcomed warmly in financial institution and treated with respect by financial services provider. If this does not happen, they will be disappointed and complain of low-quality service though the problem may be with customers themselves. The financial service provider must demonstrate that they care and are concerned about their customers well-being.
- i) **Empathy:** This is the provision of caring, individualized attention to customers. In this context the financial service provider must not give programmed solution to all customers but must show they understand each customer and treat them differently.
- j) **Access:** The ease of approach and contact. This is the other dimension of service that marketers must be concerned about. The service employee must be approachable and easy to talk to as they deal with customers. They must show customers that they are king and give them access to as much information as they might require.

These service dimensions have been summarized as 1. Reliability – delivering on promises, 2. Responsiveness i.e., being willing to help, 3. Assurance –Inspiring trust and confidence, 4. Empathy. Treating customers as individuals and 5. Tangibles –physical representation. Financial service providers must ensure that their employees are familiar with these dimensions and that they are willing to put them into practice as they deliver services to customers. It then follows that the employees must try and live a lifestyle that has these values in them to be able to demonstrate them in the workplace.

### **10.5 Service Delivery and Design Gaps**

The service delivery and design gaps arise from the believe that a financial service provider or any other service business desires to offer consistency service to its customers all the time. However due to human error, there are many gaps that arise between service delivered and customer expectation. The theory of service gaps was developed by Zeithaml, Berry, and Parasuraman (1985) and enhanced by Lovelock (1994). The gap model identifies six service gaps that a financial service provider encounters and how to close them.

Zeithaml, Berry, and Parasuraman identify four potential gaps within the service organization that may lead to a final and most serious gap: the difference between what customers expected

and what they perceived was delivered. However, these have been extended to include three more gaps by Lovelock (Lovelock and Wirtz 2011)

1) The **knowledge gap** is the difference between what service providers believe customers expect and customers' actual needs and expectations. This arises from poor customer relationship management and also from the philosophy of inward-outward thinking rather than vice versa. The gap may also arise due to failure to listen to customers complaints or poor communication between management and frontline staff. This gap may be closed by ensuring the firm philosophy on marketing is market driven and by conducting marketing research to address the challenge. Improved communication between management and staff will also help in reducing this gap.

2) The **standards gap** is the difference between management's perceptions of customer expectations and the quality standards established for service delivery. Every financial institution must establish performance standards in terms of turn around time, the time it takes to respond to customers complaints among others. These standards ought to be established with customer in mind which is not the case always. This causes this gap to arise. This gap may be closed by ensuring there is proper communication within the financial institution and by ensuring ensure that top management displays on-going commitment to quality as defined by customers. The financial institution must ensure they put in place customer -oriented service standards and enforce by training all the players. Standardizing repetitive tasks also helps in reducing this gap.

3) The **delivery gap** is the difference between specified delivery standards and the service provider's actual performance on these standards. This gap may arise due to deficiencies in human resource policies, failure to match supply to demand, employee lack of knowledge of the product and lack of cohesive teamwork to deliver the product or service. This gap is closed through proper training and empowering of employees as well as schemes to retain highly knowledgeable employees.

4)The **communication gap** is the difference between what the company's advertising and sales personnel think are the product's features, performance, and service quality level and what the company can deliver. The service provider promises what they are not delivering, draining customer expectation. If these expectations are not met, the customer is largely dissatisfied. This gap is due to poor communication within the firm and can be closed by enhancing communication and by ensuring all employees participate in developing promotion strategy. The firm must also manage customers' expectations well.

5) The **perceptions gap** is the difference between what is, in fact, delivered and what customers perceive they have received (because they are unable to accurately evaluate service quality). This gap arises due to the influences exerted from the customer side (personal needs, recommendations, and past experience) and the shortfalls (gaps) on the part of the service

provider in service delivery process. This gap would be closed by ensuring that we manage customers expectation and ensure our staff follow the laid down procedure in service delivery.

6) The **interpretation gap** is the difference between what a service provider's communication efforts (in advance of service delivery) promise and what a customer thinks were promised by these communications. This implies that the customer may have misunderstood the promises made and therefore raised expectations beyond what was promised. This gap can be closed through scrutiny of promotion and pretesting any advertising to ensure the customers interpret it accurately.

7) The **service gap** is the difference between what customers expect to receive and their perceptions of the service that is delivered. It arises from other gaps or simply because the customer misinterprets service quality. This gap is closed by ensuring all other six gaps are closed to avoid losses that would come from misunderstanding of service quality.

## **10.6 Service Recovery**

Service failure is a common problem among financial services providers. This may be due to technical problems. Consumers feel problem failure when services are unavailable as promised, delivered too late or slowly, the outcomes are incorrect or poorly executed, or employees may be rude or uncaring (Lovelock 1994). Service failure can lead to customer defection, negative word of mouth advertising, customers may take legal address or complain through consumer rights organizations. The financial service marketer may not want to engage in these activities and therefore will try to avoid coming to this point.

Service recovery has strong impact on customer satisfaction loyalty, positive word of mouth all of which may translate into higher profitability for financial institutions. Well executed services boost employee morale and is an impetus for better performance in future. Financial service provider must strive to ensure that the service provided excites customers but incase of failure, they will do everything to recover the service. A firm requires well document procedure for service recovery.

The following are well known service recovery strategies that can be employed by financial instructions and any other service business.

1. Make the service fail-safe-do it right the first time! This is the best approach in service recovery. The marketers ensure they do things right the first time and consequently there is no need for service recovery.
2. Encourage and track complaints: the financial institution endeavors to track all complaints, address them and resolve the problem. It is also important to try and anticipate problems before they come so that we can address them.
3. Act quickly: the financial institution must act quickly to address any service failure to minimize customer frustrations. They need to provide them with alternatives where

possible to make sure the resolving of the problem is not delayed. Delays are sometimes more frustrating and can result in customers defections easily.

4. Empower Employees: Employees must be trained and empowered to solve problems as they occur. A problem not solved can quickly escalate. Many employees are able to address most customers complaints and therefore the need to empower them and minimize bureaucracies in addressing these issues.
5. Provide adequate explanations: the service provider must ensure there is adequate explanation as to why the failure occurred and how that will be addressed in future. The worst mistake that service providers may make is to justify the failure rather than being apologetic.
6. Treat customers fairly: let them feel that despite the problem they have been treated fairly and that every effort is being put in place to avoid service failure. Fair treatment is an essential component of an effective service recovery strategy.
7. Cultivate relationships with Customers: this is a sure way of building confidence with the customer and ensuring that the firm is willing to address service failures. Calling the customers and assuring them that the problem is being addressed will go a long way in maintaining relationship with the customers.
8. Other strategies including learning from recovery experience and from lost customer

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