Analysis of Changes in Customers' Expectations of Service Quality in Banking Sector between 2007 and 2013

*Ali Shirazi
Department of Management, Ferdowsi University of Mashhad
Azadi Square, Mashhad, Iran
Corresponding Author's Email: a-shirazi@um.ac.ir

Yaser Asemandoreh
Department of Management, Ferdowsi University of Mashhad
Azadi Square, Mashhad, Iran

Saeed Mortazavi
Department of Management, Ferdowsi University of Mashhad
Azadi Square, Mashhad, Iran

Presented at the: SIBR-RDINRRU 2015 (Osaka) Conference on Interdisciplinary Business and Economics Research, 2nd-3rd July 2015, Osaka, Japan.

Abstract
The purpose of this paper is to compare customers' expectations of bank services at two points in time, 2007 and 2013. To collect data, a questionnaire was designed based on extensive literature review and 30 interviews of bank managers and mature investors. A total of 1000 and 396 questionnaires in 2007 and 2013 were distributed respectively among bank customers in 12 districts of Mashhad, the second largest city in Iran. To analyze data, factor analysis method and independent- sample T Test were performed. The results showed that the importance of service quality in banking sectors has meaningfully changed between 2007 and 2013. While three factors of loan facilities, information, and technology increased their importance, three factors of bank personnel, accessibility and queuing were less important, as criteria for choosing a bank in 2013. It is concluded that banks in a centrally planned economy gain competitive advantages by improving their technology, information technology infrastructures, and loan facilities.

Keywords: Service quality, Bank, Customer expectations, Iran

Introduction
The world has undergone meg-changes in economic and political structures and technological advancement over the last three decades. A political will in the early 1980s soon culminated in unprecedented restructuring of economies of the western world and an explosion of technological innovations and applications. The financial and monetary sector, as a key ingredient in capitalist economies, was also revolutionized through massive privatization, financial deregulation, service innovations, etc. Thus, banks and other financial services companies have been relentless in embracing new technologies to expand, diversify and improve their services. In this process of change and adaptation, banking sector had to endure many pains and failures, as it tried to understand new technologies and their wide-ranging implications in the

society. In Iran, these changes were complicated by other local factors, including negative or low economic growth rate, high inflation and devaluation of currency, in one hand, and inefficient telecommunication infrastructure to expand electronic banking services, such as Automatic Teller Machine (ATM), telephone banking and internet banking, on the other. To retain and increase market share, banks opted for offering more financial and consultative services to attract more customers. However, as the deregulation of banking sector took hold and more private banks entered the market, large publicly-owned banks saw as the main driving force for higher revenues, increased cross-sell ratios, higher customer retention (Bennett and Higgen, 1998) and increasing market share (Bonn and Hedge, 1993). However, not all dimensions of service quality have the same effects and advantage in all cases, rather as is argued in this paper, banks should know which elements of service quality is more important for different types of their target customers and how environmental changes affect customers' expectations and behaviors. This research was conducted at two time period of 2007 and 2013 to compare how customers expectations of benefits sought from their banks have changed. This information is critical in designing strategy of financial and monetary institutions, because it helps banks map their market according to environmental changes, thus focus on service quality aspects which maximize efficiency, customer satisfaction and loyalty.

Bank service quality

William Edwards Deming is known to be the father of concept of quality and quality management. His philosophy of quality dating back to 1940s is summarized in his system of "profound knowledge" composed of four key elements, including appreciation for a system, understanding variation, a theory of knowledge; and understanding psychology and human behavior (Deming, 1993) .Others, including Joseph Juran and Philip Crosby in the United States and Kaoru Ishikawa and his fellow countryman Genichi Taguchi in Japan, followed in his footsteps and explored the elements of a quality system that today is widely used across industries and businesses as elements of competitive advantage strategy. Over the last half a century, research in the subject has widened to include other areas of business management. For example, numerous researchers in marketing have studied the effects of service quality and excellence with the aim of helping companies design better marketing strategies. One of the early service quality studies in banking sector conducted by Kaufman in 1967. His research found that the most influential factors for choosing a bank are: convenient location to workplace or home, length of bank-customer relationship and service quality offered by the bank. Martenson (1985) research revealed that bank location, ease of securing loans, and recommendations and influence of parents are the most important factors to choose a bank. Furthermore, his research found that the majority of customers tend to choose a bank where their salary is paid into, despite the fact that one-third of customers randomly chose their bank for that purpose. Finally, Laroche et al. (1986) found that friendliness of staff is the most critical factor in deciding which bank to choose, followed by longer bank hours, shorter queues, proximity to workplace or home, and efficiency of bank staff.

Tan and Chua (1986) with the assumption that the criteria bankers use in western style marketing may not be as important in eastern countries, conducted a study in Singapore and found that social factors played more important role compared to other factors when choosing a bank, because customers were influenced more by friends and family members, perhaps because family and social links in oriental culture is more important than in occidental culture. They also found that bank customers didn't consider the bank location an important factor, since Singapore is a fairly small country. In another study, Javalgi et al. (1989) used Analytic Hierarchy Process

(AHP) to identify key factors in choosing a bank. Their results showed that safety of fund, interest on savings accounts, and availability of loans recorded the highest scores.

More recently, Almossawi (2001) found that the chief factors determining college students' bank selection are: bank's reputation, availability of parking space near the bank, friendliness of bank personnel, and availability and location of automated teller machines. Dowlin and Gerrard (2005) findings showed that recommendations from others are influential and significantly more important in choosing secondary bank. Furthermore, although offering an incentive is significantly more important in choosing secondary bank, is less influential in terms of overall ranking of importance. Finally, they found that service expectations and low fees/overdraft charges are less significant in choosing secondary bank. In another study by Lymperopoulos et al. (2006), findings showed that service speed, understanding customer, keeping promise, patience and offering help are more important than other factors in choosing a bank. It also revealed that bank service quality is the most important element in customers' decision-making process when selecting mortgage providers and establishing long-term relationship with their bank. The other three factors include the product attributes, access, and communication. Omar (2008) in his study found that there are some differences between men and women in choosing a retail bank. While safety of fund and efficient service are important to men, women consider speed of transaction and safety of fund more important than any other factors. Finally, a study by Ismail et al. (2014) in Malaysia found that reputation, service quality, media advertisement, and religious- social factors influence customers' decision when choosing Islamic home financing.

Table 1summarizes some of the key research findings since 1970s on most important factors for choosing a bank:

Table 1. Research findings on factors affecting in choosing a bank

Factor	Source
Bank's Reputation	Anderson et al (1976), Erol et al (1990), Kazeh & Decker (1993), Boyd et al (1994), Holstius & Kaynak (1995), Yue & Tom (1995), Minhas & Jacobs (1996), Alfansi & Sargeant (2000), Almossawi (2001), Devlin (2002), Devlin & Gerrard (2005).
Fast and Efficient Services	Laroche et al (1986), Erol et al (1990), Kaynak & Kucukemiroglu (1992), McKechnie (1992), Kazeh & Decker (1993), Boyd et al (1994), Haron et al (1994), Holstius & Kaynak (1995), Yue & Tom (1995), Kennington et al (1996), Minhas & Jacobs (1996), Mylonakis et al (1998), Alfansi & Sargeant (2000), Lymperopoulos et al (2006), Omar (2008).
Recommendations	Mason & Mayer (1974), Anderson et al (1976), Riggall (1980), Martenson (1985), Tan & Chua (1986), Kaynak & Kucukemiroglu (1992), Alfansi & Sargeant (2000), Almossawi (2001), Devlin (2002), Devlin & Gerrard (2005), Omar (2008).
Bank Location	Kaufman (1967), Mason & Mayer (1974), Anderson et al (1976), Riggall (1980), Martenson (1985), Javalgi et al (1989), Kaynak & Kucukemiroglu (1992), McKechnie (1992), Boyd et al (1994), Holstius & Kaynak (1995), Yue & Tom (1995), Minhas & Jacobs

	(1996), Mylonakis et al (1998), Alfansi & Sargeant (2000), Almossawi (2001), Devlin (2002), Lee & Marlowe (2003).
Low Interest Rates on Loans	Anderson et al (1976), Kazeh & Decker (1993), Boyd et al (1994), Stafford (1996), Alfansi & Sargeant (2000), Almossawi (2001), Devlin (2002), Lee & Marlowe (2003), Devlin & Gerrard (2005), Devlin & Ennew (2005).
Large Range of Services	Kaynak & Kucukemiroglu (1992), Stafford (1996), Alfansi & Sargeant (2000), Almossawi (2001), Devlin (2002), Devlin & Gerrard (2005).
Friendliness of Staff	Mason & Mayer (1974), Anderson et al (1976), Laroche et al (1986), Erol & El-Bdour (1989), Erol el al (1990),Kaynak & Kucukemiroglu (1992), Kazeh & Decker (1993), Boyd et al (1994), Haron et al (1994), Holstius & Kaynak (1995), Kennington et al (1996).
Longer Opening Hours	Anderson et al (1976), Laroche et al (1986), Kaynak & Kucukemiroglu (1992), Boyd et al (1994), Minhas & Jacobs (1996), Alfansi & Sargeant (2000), Almossawi (2001).
High Interest Rates on Savings	Anderson et al (1976), Javalgiet al (1989), Kazeh & Decker (1993), Boyd et al (1994), Holstius & Kaynak (1995), Stafford (1996), Alfansi & Sargeant (2000), Almossawi (2001).
Low Service Costs	Riggall (1980), Kazeh & Decker (1993), Stafford (1996), Holstius & Kaynak (1995), Yue & Tom (1995), Kennington et al (1996), Almossawi (2001), Devlin (2002), Lee & Marlowe (2003)
Ease Access to Loans	Martenson (1985), Javalgi et al (1989), Kaynak & Kucukemiroglu (1992), McKechnie (1992), Kazeh & Decker (1993), Almossawi (2001), Devlin (2002).

Research Methodology

The survey research method is used to study the difference between bank customer expectations and preference at two different time period. Sample is drawn from bank customers over 18 years of age in 12 districts of the city of Mashhad, the second largest city in Iran. Given that the research uses factor analysis, the sample size in the first study was calculated at 610 (10 times type number of variables). Of 1000 questionnaires that were distributed in the city districts, roughly 800 questionnaires were returned which only 640 were useable for data analysis. The useable data for the second study was 396.

To design the questionnaire items, initially relevant literature and research findings were thoroughly reviewed, and a list of criteria for selecting bank was prepared. Then, 30 bank managers and individuals with fairly high financial maturity[1]

1. Individuals who have propensity to higher risks, protect their wealth against tax, and focus on increasing the value of their wealth even in inflationary environments (Kamakura *et al.*, 1991)

Findings

The respondents characteristics in 2007 and 2013 varied slightly, but overall participants were mostly men, married, 25-45 years of age with a university degree. In identifying market factors in choosing a bank, Exploratory Factor Analysis was applied to derive a small number of factors that explain a significant amount of the variation in consumer behavior. The KMO and Bartlett's Test was used to test factorability of the data. The value of KMO statistics for this study was 0.887 and the Bartlett's Test was significant which shows the suitability of the factor analysis. The exploratory factor analysis identified 9 factors with an eigenvalue of 11.677, 7.260, 5.632, 3.712, 3.340, 2.577, 2.270, 1.830 and 1.637. The sum of these factors explains more than 65% of consumers' behavior. The explanations for each of these 9 factors are as the following:

Factor 1: Bank Personnel

The factor analysis showed that the first factor contained 12 variables, and the total percentage of variance explained by this factor was 19.142%. Variables, such as efficiency of bank staff, reliability of staff, understanding customer wants and friendliness of staff had the highest factor loadings. The customers who assign high score to this factor attach significant importance to bank personnel behavior.

Factor 2: Accessibility

This factor loads 12 variables, accounting for 11.902% of total variance. The highest loadings in this factor included the number of branches across the country, convenient location, longer banking hours and the number of automatic teller machines. The customers who assign high score to this factor attach significant importance to ease and time spent to do their banking.

Factor 3: Loan Facilities

Loan facilities loading include 8 variables, accounting for 9.233%. People who are engaged in economic activities give high score to this factor, as they are more likely to look for loan and credit facilities with the lowest interest rates. Of course, economic activity may be in the form of savings, which in this case the goal is to receive the highest interest rates for funds. The customers who assign high score to this factor attach significant importance to monetary benefits derived from selecting a particular bank.

Factor 4: Physical Appearance

Physical appearance which explains 6.085% of total variance includes loadings such as bank size, attractive promotions, external appearance and interior layout. The customers who assign high score to this factor focus on physical aspects of a bank and are attracted to bank promotional activities.

Factor 5: Core Services

The fifth factor includes loading with 8 variables, including bank reputation, accuracy in banking affairs, efficient service, speed of transaction, safety of fund, confidentiality of the bank. Its variables account for 5.475% of total variance, and scored highly by those who attach importance to bank service processes.

were interviewed to confirm the items on this list and subsequently the key variables and wording of the questionnaire. It consisted of 61 bank selection criteria that was measured using 5-point Likert scale (1=not very important to 5= very important). The internal consistency reliability of the questionnaire was calculated to be 0.92. Further, factor analysis technique was performed to identify the most relevant factors. Finally, customers' expectations and preferences at two points in time (2007 and 2013) were compared using independent- sample T Test. Considering large sample size and consequent risk of type II error, the final sample size for both studies, randomly selected and then determined by NCSS, was 300.

Factor 6: Technology

This factor with loadings that include 5 variables is concerned with bill payments, bank network interconnection with no off-line, latest advanced technology utilization and internet access to accounts. This factor explains 4.225% of total variance and scored highly by those customers who attach importance to bank technology, its speed and efficiency.

Factor 7: Incentives

This factor loaded 3 variables, including gift for opening a new account, holding lottery ceremony and the value of prize money. It account for 3.772% of total variance, scored highly by those whose decision in selecting a bank is influenced by probability of winning prize money, and free travel or product.

Factor 8. Information

Information factor loaded 4 variables, including family and friend recommendations, access to information at branches, wide-range of services on offer, such as consultative-financial advices. It scored highly by people who would like quick and easy access to information, either provided by friends and acquaintances or bank branch staff. Furthermore, they are motivated by receiving free or user-pay information or advices.

Factor 9. Queue

The last factor is loaded 4 variables, and is concerned with the queue waiting time. It explains 2.683% of total variance and includes variables, such as length of queue for receiving service or at queing machines, and how quickly bank staff provides service to customers waiting in the queue.

Findings of independent- sample - Test

Given that the data had normal distribution, we used parametric t-test to compare bank customers' expectations in 2007 and 2013. As shown in Table 2, bank personnel factor is meaningfully decreased in 2013 compared to 2007, meaning that customers pay less attention to variables loaded in this factor. For example, number of staff and their appearance is not as important as in 2007. The importance of accessibility factor is also significantly decreased, because the number of branches across the country, convenient location, and longer banking hours play less important role in customers' decision making. However, loan facilities, such as lower interest charges on loans, higher interests on savings, access to credits when needed, and other similar variables in this factor have gained more importance and are highly regarded benefits by customers. Similarly, while the importance of physical appearance and core service factors haven't meaningfully changed from 2007 to 2013, the importance of technology factor has significantly increased in the same period to the extent that variables listed under this factor are sought by most customers, thus play a prominent role in preferring one bank over its competitors. The analysis shows that information factor has not gained more importance over the period. Finally, the importance of incentive hasn't meaningfully changed, but queue factor has meaningfully changed its importance in opposite direction, meaning that customers consider it less important when choosing a bank.

Table 2. Findings of Comparative Analysis of Means

Factor	Year	Mean	SD	Meaningfulness	More/Less Importance
Bank Personnel	2007	3.69	0.62	Yes	**Less**
	2013	3.48	0.51		

Accessibility	2007	3.53	0.49	Yes	**Less**
	2013	3.04	0.42		
Bank Facilities	2007	3.30	0.55	Yes	**More**
	2013	4.02	0.58		
Physical Appearance	2007	3.07	0.41	No	**Neutral**
	2013	3.13	0.44		
Core Service	2007	4.03	0.48	No	**Neutral**
	2013	4.05	0.53		
Technology	2007	3.54	0.52	Yes	**More**
	2013	4.25	0.56		
Incentives	2007	3.09	0.51	No	**Neutral**
	2013	3.02	0.44		
Information	2007	3.59	0.56	Yes	**More**
	2013	3.67	0.48		
Queue	2007	3.68	0.44	Yes	**Less**
	2013	3.01	0.46		

Discussions and Conclusions

The results of this research have showed that people’s expectations about the dimensions of quality service through time have changed considerably. The most important environmental factors that influences individual decision in choosing a bank today is related to technical systems and information technology. The development of communication and information technology coupled with people’s attitude toward time has led to less frequent visits to banks, compared to a decade ago. People increasingly tend to prefer using electronic banking networks for their financial transactions, including mobile banking, telephone banking, internet banking, Automatic Teller Machines (ATM) and Electronic Funds Transfer at Point of Sale (EFTPOS) system,. The findings highlight the increasing importance of technology, and decreasing importance of access to bank branches and face-to-face banking. Thus, it may be argued that the most critical role of banks today is to improve and continuously update their technology, networks and systems, in one hand, and provide assistance to customers in using electronic banking services, on the other. In addition, given the role of generic factor (bank reputation, accuracy in banking affairs, speedy and efficient service, speed in transferring fund, fund security, fast service at bank branches, confidentiality, and bank trustworthiness), it is suggested that banks should ensure that internet banking services take place in a secured and risk-free space.

It is also important that banks should network their system so that customers can do their banking affairs quickly, easily and securely. Furthermore, as people are increasingly rely on information to manage their lives, establishing customers network is important as it allows decision-makers to be continuously informed of customers’ needs and preferences. In other word, for bankers to compete successfully against their rivals, they should set up an information system that routinely and systematically allows them to know what customers want. Another development in Iran’s banking sector is the increasing role of bank facilities as a consequence of the country’s economic liberalization and privatization policies over the last decade. Hence, variables related to this factor, such as access to loans and credits and their respective interest rates, will gain more importance among bank customers in the future. Furthermore, hyperinflation environment in Iran over the last few years has been the main reason for people to search for highest interests for their savings as a hedge against high inflation and devaluation of their wealth. However, given that interest rate, fee and loan provisions are set by the Iran's Central Bank, banks could only gain competitive advantage by expanding and improving their technology, access to information, and customer services.

References

1. Alfansi, L. & Sargeant, A. (2000). Market segmentation in the Indonesian banking sector: The relationship between demographics and desired customer benefits. *International Journal of Bank Marketing*, 18 (2), 64-74.
2. Almossawi, M. (2001). Bank selection criteria employed by college students in Bahrain: An empirical analysis. *International Journal of Bank Marketing*, 19(3), 115-125.
3. Anderson, W., Cox, E. & Flucher, D. (1976). Bank selection decisions and market segmentation. *Journal of Marketing*, 40 (January), 40-45.
4. Bennett, D. & Higgins, M. (1988). Quality means more than smiles. ABA Banking Journal.
5. Bowen, J. W. & Hedges, R. B. (1993). Increasing service quality in retail banking. *Journal of Retail Banking*, 15, 8-21.
6. Boyd, W., Leonard, M. & White, C. (1994). Customer preferences for financial services: An analysis. *International Journal of Bank Marketing*, 12, 9-15.
7. Deming, W. E. (1993). *The new economics.* Cambridge, MA: MIT Press.
8. Devlin, J. F. (2002). Customer knowledge and choice criteria in retail banking. *Journal of Strategic Marketing*, 10, 273-290.
9. Devlin, J. F. (2002). An analysis of choice criteria in the home loans market. *International Journal of Bank Marketing*, 20, 212-226.
10. Devlin, J. F. & Gerrard, P. (2005). Choice criteria in retail banking: An analysis of trends. *Journal of Strategic Marketing*, 12, 13-27.
11. Devlin, J. F. & Ennew, C. T. (2005). *How the young choose financial services: a quantitative analysis.* Paper presented at the 34th EMAC Proceedings, University Bocconi, Milan.
12. Erol, C. & El-Bdour, R. (1989). Attitudes, behavior and patronage factors of bank customers towards Islamic banks. *International Journal of Bank Marketing*, 7, 31-38.
13. Erol, C. Kaynak, E. & Radi, E.B. (1990). Conventional and Islamic banks: Patronage behavior of Jordanian customers. *International Journal of Bank Marketing*, 8, 25-35.
14. Haron, S. Ahmed, N. & Planisek, S. (1994). Bank patronage factors of Muslim and non-Muslim customers. *International Journal of Bank Marketing*, 12, 32-40.
15. Holstius, K. & Kaynak, E. (1995). Retail banking in Nordic countries: The case of Finland. *International Journal of Bank Marketing*, 13, 10-20.
16. Isma, S., Azmi, F. & Thurasamy, R. (2014). Selection criteria for Islamic home financing in Malaysia. *International Journal of Business and Society*, 15 (1), 97-110.
17. Javalgi, R. G., Armaco, R. L. & Hoseini, J. C. (1989). Using the analytical hierarchy process for bank management: Analysis of consumer selection decisions. *Journal of Business Research*, 19, 33-49.
18. Kamakura, W. A., Ramaswami, S. N. & Srivastava, R. K. (1991). Applying latent trait analysis in the evaluation of prospects for cross-selling of financial services. *International Journal of Research in Marketing*, 8 (November), 329-349.
19. Kaufman, G. G. (1967). A survey of business firms and households view of a commercial bank: Report to the Federal Reserve Bank of Chicago, Appleton, University of Wisconsin: Madison, WI.

20. Kaynak, E. & Kucukemiroglu, O. (1992). Bank and product selection: Hong Kong. *International Journal of Bank Marketing*, 10, 3-16.
21. Kazeh, K. & Decker, W. (1993). How customers choose banks. *Journal of Retail Banking*, XIV (Winter), 92-93.
22. Kennington, C., Hill, J. & Rakowska, A. (1996). Customer selection criteria for banks in Poland. *International Journal of Bank Marketing*, 14, 12-21.
23. Laroche, M., Rosenblatt, J. A. & Manaing, T. (1986). Services used and factors considered important in selecting a bank: An investigation across diverse demographic segments. *International Journal of Bank Marketing*, 4, 35-55.
24. Lee, J. & Marlowe, J. (2003). How consumers choose a financial institution: Decision-making criteria and heuristics. *International Journal of Bank Marketing*, 21, 53-71.
25. Lymperopoulos, C., Chaniotakis, I. E. & Soureli, M. (2006). The importance of service quality in bank selection for mortgage loans. *Managing Service Quality*, 16(4), 365-379.
26. Martenson, R. (1985). Consumer choice criteria in retail bank selection. *International Journal of Bank Marketing*, 3, 64-75.
27. Mason, J. B. & Mayer, M. L. (1974). Differences between high-and-low-income savings and checking account customers. *The Magazine of Bank Administration*, 65(June), 48-52.
28. McKechnie, S. (1992). Consumer buying behavior in financial services: an overview. *International Journal of Bank Marketing*, 10, 4-12.
29. Minhas, R. S. & Jacobs, E. M. (1996). Benefit segmentation by factor analysis: an improved method of targeting customers for financial services *The International Journal of Bank Marketing*, 14, 3-13.
30. Mylonakis, J., Malliaris, P. & Siomkos, G. (1998). Marketing-driven factors influencing savers in the Hellenic bank market. *Journal of Applied Business Research*, 14, 109-116.
31. Omar, O. E. (2008). Determinants of retail bank choice in Nigeria: A focus on gender-based choice decisions. *Service Business*, 2.
32. Riggall, J. (1980). A new Study: How newcomers select banks. Banking Journal, July, 93-94.
33. Stafford, M. (1996). Demographic discriminators of service quality in the banking industry. *Journal of Services Marketing*, 10, 6-22.
34. Tan, C. T. & Chua, C. (1986). Intention, attitude and social influence in bank selection: A study in an Oriental culture. *International Journal of Bank Marketing*, 4, 35-54.
35. Yue, H. & Tom, G. (1995). How the Chinese select their banks. *Journal of Retail Banking*, XIV (Winter).