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SERVICE QUALITY: AN EMPIRICAL STUDY OF EXPECTATIONS VERSUS PERCEPTIONS IN THE DELIVERY OF FINANCIAL SERVICES IN COMMUNITY BANKS

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ABSTRACT

This study is an in-depth empirical investigation that seeks to compare consumer expectations to perceptions in the delivery of service within community banks in the southern United States. It has as its aim to develop a useful instrument to evaluate service quality by comparing consumer expectations to their perceptions of delivered service. An additional purpose is to determine bank chief executive officers' ability to predict consumer expectations in the area of service delivery.

The theoretical portion of the study focused upon a review of the history of banking in the United States and its subunit, the State of Texas, which is uniquely different from the banking systems of Europe and Asia. The literature was also examined to review service quality and customer satisfaction.

In order to examine methods to predict service quality in community banks, an investigation was carried out among consumers of fifteen community banks in the southern United States. The collection of the data was driven by six research hypotheses and involved two questionnaires. One questionnaire ask for customer expectations versus perceptions. A second questionnaire required the chief executive officers of the consumers' banks to state their perceptions of what their consumers expected in the way of service delivery.

The main findings of the research built upon and extended the research by Ittner and Larcker (1996) which noted that the three prime components of customer satisfaction revolved around three specific antecedents—perceived quality, perceived value, and customer expectations, the study strongly reinforced and confirmed the importance of the three antecedents. This study indicated that while expectations are very high, perceptions are also high, but not as high as expectations.

Milligan (1995) advanced the idea that it should be obvious that the element of service quality was the primary driver in bank selection, but no confirmation study was made by him or others comparing the five factors (service quality, location, advertising, recommendation of others, and service charges/fees). This study concluded that service quality was the most important factor in the selection of a community bank in the southern United States.

With no specific literature relating specifically to bankers' perceptions of service delivery expectations by consumers, one of the most significant findings in this study noted that 77.3 percent of the responses to the questions indicated a match of bankers' perceptions with consumers' expectations.

While outcomes indicated that perceptions were equal to or greater than expectations, this does not conclusively prove that satisfactory service quality will tend to be associated with outcomes equal to or above expectations. This could indicate that the customers did not expect much in the way of outstanding service.

Based upon results obtained from surveys, there appears to be a high likelihood that a bank could reasonably predict the retention of customers using the overlaid plots that in this study show high expectations and high perceptions. However, this study could not conclusively substantiate that gender, income, and education impact service quality in community banks.

Given the limited amount of literature relating to the delivery of service quality by community banks in the United States, this study provides both researchers and practitioners an empirical study of both consumers' and bankers' expectations and perceptions of service delivery, which had not been fully explored in the past.

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Chapter 1

Introduction

Introduction

1.1 Focus and Justification for the Study

This study is an in-depth empirical investigation that seeks to establish a method to predict service quality in community banks in the southern United States. The motivation for this study was provided by a lack of any useful instrument to predict and evaluate service quality in community banks to aid the retention of customers. It was noted by Bahia and Nantel (2000) that there are no publicly available standard scales for measuring perceived quality in banks. While the literature is replete with empirical studies on service quality, customer loyalty, customer retention, and customer relationships in general, there is a scarcity of empirical studies relating specifically to predicting customer retention.

1.1.1 Value and Justification for Study

Some would ask, “Where is the value in such a study?” Substantial evidence exists to report that service quality is one of the most important, if not the most important, elements in customer retention for all U. S. banks. The American Bankers Association (1994) in a report on the status of banking within the U. S. noted that community banks utilized the local ownership and service quality to a competitive advantage against larger regional or multi-national banks. Competition among banks is unique in the United States where there are 7,712 commercial banks, with well over ten percent of all banks located in the state of Texas (FDIC, 2004). The importance of selecting a large sample from the state of Texas is born out by the fact that while it is only one of the fifty states in the U. S. A., it has over ten percent of all the banks chartered in the nation.

Additional motivation for this study is the unique nature of the banking system in the U. S. with the large number of commercial banks competing for customers as compared to Europe and Asia where each of the countries will have fewer than ten banks chartered in each of the countries.

1.1.2 Lack of Literature and Research

By examining most marketing texts and journals it is obvious that little, if any, information is presented concerning prediction of customer retention as a result of service quality. Banking texts and journals address the general subject of service quality in a limited manner, however no significant mention is made relating to predicting customer retention.

A thorough review of the literature for this study revealed a total inadequacy within the current body of knowledge relating to predicting service quality by examining expectations and perceptions of bank consumers in community banks in the U. S. Considering the state of the literature in predicting service quality by examining expectations and perceptions of bank consumers in community banks in the U. S. it becomes obvious this is an area that has not been thoroughly researched.

Therefore, it was not difficult to establish the fact that a sufficient gap in the literature exists to indicate that an empirical study is justified and needed. The value of this study will be justified by the empirical research that will attempt to make an important contribution to the body of knowledge and the literature in the areas of predicting customer retention as a result of service quality. Likewise, it should make a contribution to the general body of knowledge on service quality.

1.2 Research Aims and Objectives

Choosing community banks in the southern United States of America with the state of Texas to be the primary focus of this study has been made for a number of reasons. First, the absence of specific studies makes it ripe for evaluation and study. Second, service quality is the backbone of community banking as noted in various studies made by various banking trade associations such as the American Bankers Association (1994). Third, a unique opportunity exists for this study to not only examine consumers' perceptions and expectations, but also to determine if bankers in general know what their customers are seeking in the way of customer service. The following paragraphs offer specific summaries of the aims and objectives of the study.

1.2.1 Filling the Void of Research

While the revised SERVQUAL instrument by Parasuraman, et al, (1991b) offers the most reliable device to measure the difference-score conceptualization and evaluate expectations and perceptions of service quality, it does not go far enough to attempt to predict customer retention. Likewise, it does not examine the bankers' perceptions of what the consumer expects in the service delivery arena. This study will utilize the 22-questions developed in SERVQUAL and examine the five dimensions of the reliability coefficients for the perception-minus-expectation scoring of gaps. The five factors are tangibles, reliability, responsiveness, assurance, and empathy. The instrument's design causes it to be best suited for use as a diagnostic methodology utilized for determining large areas of service quality strengths and weaknesses.

1.2.2 Adding to and Refining SERVQUAL

However, this study will attempt to further evaluate and refine the customer study by including such elements as age, income, education, gender, frequency of bank use, and items influencing the selection of the bank. Parasuraman, et al, (1991b) suggested that items not fitting in the five dimensions might be useful as long as they are treated separately in analyzing the survey data since they do not fall under the conceptual domain of service quality.

1.2.3 Bankers' Perceptions

In addition to studying customers' expectations from a bank, the research will attempt to determine managements' alignment with customer expectations. The SERVQUAL instrument, less the perception questions will be used to model an instrument to survey bank officers. A thorough review of the literature did not uncover empirical studies of bankers' perceptions of customer expectations.

1.2.4 Reasons for Selecting a Bank

One of the primary arguments uncovered in the literature review was the importance of service quality in the selections of a bank or financial institution. Some strong arguments have been made for service quality and customer satisfaction as determinates of selection, however an equally compelling argument was made for location. The literature was scarce concerning the influence of demographic data such as gender, age, income, education, Additionally, no literature was found empirically examining a predictive study of service quality to determine customer retention potential.

1.2.5 Value and Contributions of the Study

Therefore, it will be the aim of this study to conduct original empirical research in the three areas of service quality that have had little, if any empirical study. These three areas fit nicely within a study in that they tend to compliment each other and provide strength in the data mined. Even more important has been the reaction by bankers to the idea of conducting such a study. As this researcher presented the proposal to the Texas Bankers Association and to the Independent Bankers Association of Texas, it was warmly received and encouraged. Bankers have been more than willing to support this research. This study should fulfill not only the noble purpose of providing original ground breaking empirical research, but also provide a tool for community bankers to improve service quality and provide a medium to retain their customer base.

1.3 Research Design and Methodology

Surveys were developed based upon a thorough literature review, the researcher's professional experience, and discussions with bankers. After the initial instruments were prepared, a pretest was conducted on both survey instruments at a regional banking meeting. Bankers were asked to complete the survey and evaluate the document. A focus group of bank customers was asked to complete the survey and evaluate the document. Furthermore, both the bankers' and the customers' interpretation matched the researcher's intended interpretation lending support to the validity of the modified SERVQUAL instrument. It was determined from the pretest that the banker's survey instrument was adequate as tested, but this researcher added another supplemental element which ask the banker's perception of why the customer chose the bank. The customers indicated a level of comfort in answering the survey. From the pretest, a weakness was noted in the section asking the products/services utilized by the participant customers. Based upon a suggestion, it was determined that a more valuable group of data to be collected would be a ranking by the customer concerning why they selected the bank. The surveys were modified to include suggestions and criticisms by the focus groups.

1.3.1 The Customer Survey Instrument

The SERVQUAL scale was selected for the customer survey instrument. To evaluate the five dimensions, the twenty-two statements were modified to apply to banking. Bank customers were asked to indicate their level of agreement for two identical sets of twenty-two statements. One set of questions asked the customer to state their perceptions about their bank's services. A matching set of questions asked the customer to state their expectations about the bank's services. The third section of the survey instrument asked the customer to allocate 100 points among five categories. Those categories are the appearance of the bank's physical facilities, equipment, personnel, and communication materials; the bank's ability to perform the promised service dependably and accurately; the bank's willingness to help customers and provide prompt service; the knowledge and courtesy of the bank's employees and their ability to convey trust and confidence; and the caring, individualized attention the bank provides its customers. The third section of SERVQUAL is utilized to confirm the validity of the elements of perceptions-versus-expectations. Other data was collected to be able to cross-reference data such as gender, age, income, education, frequency in use of bank, ways service is accessed, services utilized, and reasons for selecting the bank.

1.3.2 The Banker Survey Instrument

The SERVQUAL scale was also selected for the banker survey instrument in order to relate directly to the customer questionnaire. To evaluate the five dimensions, the twenty-two statements were modified to apply to banking. Bankers were asked to indicate their level of agreement for the twenty-two statements. Other data was collected to be able to cross-reference data such as size of the bank's assets and the bank's geographical location. The last section of the survey instrument asked the banker to allocate 100 points among five categories. Those categories are the appearance of the bank's physical facilities, equipment, personnel, and communication materials; the bank's ability to perform the promised service dependably and accurately; the bank's willingness to help customers and provide prompt service; the knowledge and courtesy of the bank's employees and their ability to convey trust and confidence; and the caring, individualized attention the bank provides its customers.

1.3.3 The Research Sample

The research sample consists of fifteen selected banks chosen on the basis of their status as a community bank and their geographical location (13 banks within the State of Texas, 1 bank in the State of Oklahoma, and 1 bank in the State of Utah.) The basis for the two banks from other geographical areas was to determine the similarity of responses of banks and their customers from other graphical areas.

Each of the fifteen bank's CEO was asked to complete the banker's questionnaire, and return it directly to the researcher. Simultaneously, the bank was asked to distribute a number of customer questionnaires based upon the asset size of the bank with one distributed to every tenth customer in the lobby of the bank and the motor bank to obtain some degree of randomness. The resulting bank research sample represents fifteen banks with an expected response of 20 to 40 percent. However, more important to the research is the number of customers sampled that will total over 2,000 respondents.

1.3.4 Analyzing the Data

A seven-point Likert scale was used to evaluate the constructs. The third section of the survey instrument asked the customer to allocate 100 points among five categories. Those categories are the appearance of the bank's physical facilities, equipment, personnel, and communication materials; the bank's ability to perform the promised service dependably and accurately; the bank's willingness to help customers and provide prompt service; the knowledge and courtesy of the bank's employees and their ability to convey trust and confidence; and the caring, individualized attention the bank provides its customers. The third section of SERVQUAL is utilized to confirm the elements of perceptions-versus-expectations. Other data was collected to be able to cross-reference data such as gender, age, income, education, frequency in use of bank, ways service is accessed, services utilized, and reasons for selecting the bank.

Selection of the statistical techniques to use in analyzing the data was a function of the objective of the research. In this study, the main objectives were to assess relationships among certain variables and test specific hypotheses regarding the nature of the relationships. An aspect unique to SERVQUAL is the interrelation between the five facets or indices known as tangibles, reliability, responsiveness, assurance, and empathy. Based upon numerous tests of SERVQUAL, it was noted that oblique rotations were required on an interrelated basis of the five factors.

This study will seek to address the nature and causes of the interrelations as suggested by Parasuraman et al, (1991b) in their research. In addition, the study will attempt to reinforce the concept that elements such as age, education, income, gender, where they obtain their services, and frequency of use impact service quality.

1.4 Structure of the Study

The study is structured into seven chapters organized to present the study utilizing a methodology that allows it to flow from a basic introduction to empirical findings. Table 1.1 below displays the organization of the study. Chapter 1 introduces the study and sets the focus and direction to be taken to for an empirical study exploring nominally researched or unresearched areas of service quality. The chapter focuses upon giving the reader an overview of the study’s development.

Table 1.1 Organization of the Study	
Chapter 1	Introduction
Chapter 2	Banking in the United States
Chapter 3	Customer Satisfaction
Chapter 4	The Development of Service Quality
Chapter 5	Methodology for Research
Chapter 6	Research Findings
Chapter 7	Conclusions

The second chapter is a thorough review of the history of banking in the United States of America from it early beginnings down to current times to include the unique nature of the U. S. banking system. It also provides a history of banking in the state of Texas. Community banks and large banks are defined to show the particular segment the research will isolate and study. It also examines the intangibles of banking for further review.

Chapter 3 is the literature review of customer satisfaction. The chapter begins by discussing, defining, and measuring customer satisfaction. It examines literature in the areas of customer loyalty, customer expectations, customer relationship management. This chapter has demonstrated that there is an interrelationship between customer loyalty, customer retention, and customer relationship management in determining customer satisfaction.

In the fourth chapter the primary portion of the literature review is exposed. This chapter focuses on the development of service quality. It examines the distinct role of services marketing, relationship between customer satisfaction and service quality, a definition, measurement, and dimensions of service quality. The SERVQUAL model (Parasuraman, et al, 1991b), its uses, and contents are introduced to the study. Validity of SERVQUAL as a measuring tool, along with its importance, and its detractors is laid out. Further, the chapter concludes with a discussion of service as an element of selection, service quality's impact on profitability, and the validity of SERVQUAL in banking applications.

Chapter 5 presents in detail a discussion and explanation of the research methodology. It begins with a discussion of the modification of the SERVQUAL instrument, the research sample, formulation of instruments, and the pretest of the instrument by focus groups. A detailed discussion follows on design and development of both customer and banker questionnaires, data collection and analysis.

The sixth chapter delves into the research findings of the study. It begins with a profile of the sample and of the respondents, and follows with demographic evaluation of age, gender, income, education, and information about the use of the facility by respondents. Respondents' reactions to reasons for selecting the bank are examined. Consumer expectations versus perceptions are examined in the 22-question context and narrowed responses are viewed from the five elements of the modified SERVQUAL instrument. Bankers' perceptions of consumers' expectations of service delivery are also studied. The Customer Retention Indicator Grid, is introduced and used to plot the five primary elements of SERVQUAL for the likelihood of customer retention.

Chapter 7 aims to present the conclusions and implications of the findings for the literature on utilization of the customer retention grid for predicting customer retention. Likewise, it hopes to present a valuable tool for community bank practitioners to utilize for customer retention. Finally, the chapter concludes by advising the audience about the limitations of the findings and suggesting a future course for further research. The chapter concludes by setting out the study's contribution to knowledge.

Chapter Two

Banking in the United States

Banking in the United States

2.1 Introduction

This chapter presents an overview of the unique nature of the United States banking system which until recently was the only country that did not have a bank with nationwide branches. The U. S. system does not have a true central bank even though the Federal Reserve Bank serves as a “quasi” central bank. Since the study relates to banking in the United States and more specifically service quality in community banks within the state of Texas, the chapter will address community banks as opposed to large regional banks.

A summary of the history of banking in the United States will provide the reader with an insight into the economic, political, legal, and business events that shaped banking from the first bank in the nation to the present. Likewise, the history of banking in the state of Texas gives the reader a first-hand look into the resistance of the state’s political leaders toward state chartered banks and branch banking. The history of banking in Texas will give the reader a complete view of banking in the state from the state’s founding to the present.

The history of consumer attitudes and behavior is also exposed to provide an insight into what the consumers sought and the banks delivered to meet their needs. This affords a view of products and services from early times down to the present.

The aim of this chapter is to give the reader a good background into the nature of the banks being studied, the nature of banking and its uniqueness as evidenced by the events of history both in the United States and Texas. A significant goal of the chapter is to help the reader understand the consumer of today and in the future we need to chart how they may differ from consumers of the past. This chapter will give a preparatory introduction before getting into the body of the study.

Competition is at the very heart of the "American Free Enterprise System", and as such must be addressed in terms of how smaller banks (community banks) are able to compete against the mega banks (large banks) with substantially more assets and facilities. The chapter will be concluded with a detailed look at the value of service quality in the competitive equation.

Differences in the United States' banking system and those of other developed countries should help the reader understand how the study could have different results from those obtained in other countries.

2.2 Unique Nature of United States Banking System

The "founding fathers" of the new nation were concerned about the power that a central bank could influence. Based upon the premise that the nation was founded upon the principles of freedom and free speech, the new government known as the Congress of the United States went to great lengths to avoid the centralization of power, especially in the financial system. As a result, commercial banking in the United States is totally different from most other developed countries. For over one hundred and fifty years, branch banking throughout the nation was prohibited by law. In fact, for many years, most states within the nation did not allow branch banking throughout their state. It was not until 1997, that the U. S. had a true banking environment that operated with branches throughout the nation. As a result of the earlier banking system, the United States had some 9,000 banks, while most developed countries had fewer than 100 commercial banks and some had only three or four banks with many branches throughout the countryside. The banks in the United States tend to be smaller than those in other countries as a result of this earlier banking system (Mishkin and Eakins, 1999).

There is no true central bank for the United States, as you would find in most other countries. The Federal Reserve Bank became the quasi-central bank in 1913 for the purpose of controlling the money supply and serving as the depository of the government's money. Their role has basically not changed, and there still is not a true central bank in the United States.

Another unique feature of the U. S. banking system is the multiple authorities that regulate the banks. Banks holding a national charter are regulated and supervised by the Office of the Comptroller of the Currency. For state chartered banks, the Federal Deposit Insurance Corporation and the state regulators within the state where the bank is chartered regulate and supervise those banks. On the other hand, state chartered banks electing membership in the Federal Reserve System are regulated and supervised by the Federal Reserve Bank and the state regulators within the state where the bank is chartered. Perhaps, a unique twist to all of the regulatory issues mentioned above is the Federal Deposit Insurance Corporation's quasi authority over all banks because they are the agency that issues deposit insurance protection.

Unlike most other developed countries, the banking system in the United States provides federally mandated insurance on all commercial bank deposits up to $100,000 per depositor. This unique insurance system was put in place after the Great Depression of the 1930s to restore confidence in the banking system. It started with insurance of $1,500 per account and has been raised to the current $100,000. There is a bill pending in the Congress to increase the amount of insurance per account, but it is currently stalled in a political issue.

2.3 Community Banks and Large Banks

Commercial banking has evolved into community banks and large banks, sometimes referred to as multi-regional or multi-national banks. Originally, small, locally owned and operated banks sprang up in rural America. Large banks tended to be located in the larger regional money center communities with the largest of these being headquartered in the nation's largest city—New York. In the early history of banking in the United States banks were not categorized or defined, but as the nation grew and more banks were chartered there was a need to find some means for identifying banks. Sinkey (1998) noted that within the banking industry, community banks control 23 percent of the assets and large banks control 77 percent. Further, he defines community banks as:

> "Community banks are broadly defined as those with assets of less than $1 billion. They are locally owned banks that serve consumers and small and medium-sized businesses in local markets." (page 822)

Koch and MacDonald (2000) separate the structure of banking into five categories namely, global banks, nationwide banks, super regional banks, regional banks, and specialty or independent banks. They include community banks in the specialty or independent category. Therefore, their definition of a community bank would be as follows:

Banking in the United States

> "Specialty banks are independent or community banks that specialize in a limited region or limited product line. Smaller specialty banks are often part of a one-bank holding company and may operate branches, but are typically linked closely with a single community in which the bank is located…Many bankers view community banks as synonymous with independent banks." (page 45)

Conversely, large banks are generally over a billion dollars in assets and serve a larger region than community banks. Most of these large banking organizations operate from a multi-bank holding company environment. Definitions of both types of banks are imprecise, but serve as a basic delineator between banks. Koch and MacDonald (2000) did not have precise definitions of the other four categories of banking but noted that all except the specialty or independent category are considered large banks. Global banks would have a large international presence and only five U. S. banks could be included in that category. Nationwide banks would, as the name implies, serve the entire nation with a branch network. Super regional banks would include banks that operate in a multi-state area, and regional banks would be similar to super regionals but would have a more limited geographic area of service.

For community banks to survive according to the Gallup Poll commissioned by the American Bankers Association in 1995, they must address the top two motives for choosing a bank which were convenience (39%) and customer service (19%). Rhoads (1996) noted that there were five keys to survival of community banks with the two most important being accepting nontraditional concepts of customer service and staying abreast of technology. McCoy, et al (1994) addressing the ultimate status of community banks stated:

> "Despite the real pressures on community banks…these institutions can survive, if well run. The case can be made that these institutions should be able to offer better personal service than the larger regional and national banks who, by their very nature, may tend to be impersonal." (page 116)

What will the structure of the nation's banking system look like in the future? According to Mishkin and Eakins (2000) the structure will still be unique when compared to other developed countries. While it is anticipated that the merger and consolidation craze of the 1990s will decline substantially, and there will still be several thousand banks remaining, the future of community banking looks bright for those who do what they do best and that is delivering personalized customer service.

2.4 Banking in the United States

The colonies had severe financial issues during the American Revolution that could be traced directly to the lack of a national bank or national banking system. Wildcat groups made money available on a rather limited and irregular basis. While taxing by governments was the most conventional method for raising funds, the Continental Congress did not have the power to tax its citizens on a national basis. This absence of power was an intended result of the individual states fearing that a federal government would become like the British government, which they were rebelling against. Therefore, the power to tax was vested only in the individual states, and the Congress would have to rely on the states to send an appropriate share of tax money to support a central government. In 1781, the Bank of North America, a state-chartered bank, was established and a major financial crisis was averted (Kaplan, 1999). Hence the beginning of the era of banking arrived in the United States. From that point forward, state chartered banks were to be a part of the financial system of the nation.

The need for a national bank became obvious to governmental leaders because both the Continental Congress and the state governments could issue paper money, which they did, leading to inflation and a lack of confidence in the financial system. It was very difficult to finance the revolutionary war against Great Britain. To bring some credibility, a national bank was needed to finance this war. Only two national banks that did banking business with the general citizenry as well as the government were ever chartered. The two banks were The First National Bank of the United States and The Second National Bank of the United States, which each lasted only twenty years after which their charters were revoked.

It took a depression and a civil war to bring national bank charters back to the nation. The National Banking Act of 1864 was passed to force large northern state banks to change their charters to national bank charters. Continued financial and economic disasters over the next fifty years saw banks fail at a record level, causing the Congress to pass the Federal Reserve Bank Act of 1913 creating the Federal Reserve Bank System to serve as a banker's bank and also as the nation's central bank. Creating the Federal Reserve System was to permanently instill confidence in the nation's banking system. This confidence lasted until the early 1930s at which time the nation was plunged into total financial collapse. The Great Depression of the early 1930s caused the Congress to pass the Federal Deposit Insurance Act of 1933, which provided insurance to depositors when banks failed. This act has restored and maintained confidence in the banking system to the current time.

This introduced the modern era of the dual banking system with both national and state bank charters. The line between state and national bank charters became blurred, and for the most part, they had essentially equal powers. At the same time, Congress concluded that the large number of bank failures during the Great Depression was a result of banks being in the investment business as well as the banking business. As a result, Congress passed the Glass-Steagall Act of 1933, which required banks to elect to be commercial banks or investment banks. This act remained in place until 1999 when it was replaced with the Gramm-Leach-Bliley Act of 1999. This new act allowed banks to conduct banking, investment, and insurance business under certain conditions.

Banking stability lasted for almost fifty years, until a major economic downturn in the mid-1980s caused a substantial number of bank failures. As a result of these failures, Congress passed a multitude of new laws to prevent future bank failures and to better regulate banks. These new laws put in place regulatory devices to provide better checks and balances on the banking system.

During the mid-1980s to the late-1990s there was a rash of mergers and acquisitions. Nationwide banking was allowed by law, which brought about a proliferation of large banks that offered banking services in most regions of the country. This was the era of defining banking as either small (under $1 billion) community banks or large (over $1 billion) banks. Banks under $1 billion and those over $1 billion confined to a smaller geographic area were known as community banks, while most banks over $1 billion dollars were referred to as large banks commonly referred to as regional or multi-national banks.

Considering the larger reach and greater resources of the large banks would logically lead to the question of why the community banks have not been consumed or eliminated by these larger banks. Intense competition characterizes modern banking in the United States and most, if not all, of the 50 individual states including Texas. With banks offering essentially the same products, it is reasonable to conclude that the level of service quality, convenient locations, hours of operation, and other intangibles appear to be the keys to differentiating between banks. This study seeks to examine service quality to determine its impact as a major factor in a bank's success. As ancillary or supporting elements, Chapter 3 will address the areas of customer loyalty, customer retention, and customer relationships.

2.4.1 Early History of Banking in the United States

Banking in the United States after the revolutionary war against Great Britain was difficult at best. The early periods were filled with financial instability, bank panics, and runs on the banks, which created a total lack of confidence in an infant system. Of course political involvement in the appointment of bank officers, granting of charters, and extensions of credit to those who were not creditworthy but who had strong political connections did

Table 2.1 A Timeline of Important Events in U. S. Banking
Year Event
1781-First banking charter formally established in the United States in the form of The Bank of North America.
1791-The first national bank charter was established as The First Bank of the United States.
1816-The Second Bank of the United States was chartered.
1863-The National Banking Act created the Office of the Comptroller of the Currency to supervise and examine national banks.
1933-The Glass-Steagall Act was passed to separate commercial banking and investment banking.
1933-The Federal Deposit Insurance Act was passed by Congress to create the Federal Deposit Insurance Corporation to provide deposit insurance and to supervise state chartered banks.
1935-The Banking Act formalized federal banking supervision by creating a Federal Reserve Bank Board of Governors to monitor monetary policy, and making permanent the Federal Deposit Insurance Corporation.
1956-The Bank Merger Act required Federal Reserve Bank approval for merger or acquisition of banking institutions within their own states.
1970-The Bank Holding Company Act included one-bank holding companies and modernized the laws relating to holding companies, mergers, and acquisitions.
1978-International Banking Act subjected foreign banks operating in the U.S. to regulation and required deposit insurance coverage.
1980-Depository Institutions Deregulation and Monetary Control Act was passed by Congress to remove mandatory ceilings on interest rates paid by banks and to allow interest-bearing checking accounts.
1982-Garn-St. Germain Depository Institutions Act allowed banks to compete with money market mutual funds and expanded banking powers to allow more competition with other non-bank entities.
1986-Banks were allowed to sell insurance by court order in small towns of 5,000 populations and under.
1987-The Competitive Equality in Banking Act allowed the creation of nonbank banks and allowed banks to branch across state lines.
1988-The Basle Agreement imposes minimum common capital standards on banks throughout the world based upon balance sheet and off-balance sheet risk factors and special contractual obligations.
1989-The Financial Institutions Reform, Recovery, and Enforcement Act was created to deal with banking and thrift institution failures.
1994-The Riegle-Neal Interstate Banking and Branching Efficiency Act allowed interstate banking for the first time.
1999-Gramm-Leach-Bliley Financial Services Modernization Act was the most important piece of banking legislation in the past 66 years. It allowed banks to enter investment underwriting, insurance, and merchant banking.

Source: Rose, Peter S. (2002) with additions not help the banking system. Numerous attempts were made to establish a strong central bank that would have the confidence of the nation, but each attempt failed after several years primarily due to political differences.

2.4.2 The Bank of North America

The Bank of North America was a state-chartered bank located in Philadelphia in 1781. This was the first bank chartered in the United States. In the early days of its charter, the bank enjoyed a high degree of financial success, leading to the establishment of other state-chartered banks throughout the colonies. As more and more banks were chartered, a burning issue was whether or not the federal government should control the chartering and operation of banks. Alexander Hamilton advocated the centralized control of banking under the federal government. Andrew Jackson was a proponent of states' rights allowing the individual states to control the chartering and operation of banks. Hamilton noted the success of the English banking system under government control, and he felt that their system provided an excellent model. Additionally, he wanted to build strong ties between the United States and Great Britain. He was successful in 1790 in convincing the Congress to create the First Bank of the United States (Mishkin and Eakins, 1999).

2.4.3 The First Bank of the United States

After the United States obtained its independence, this young nation wanted to minimize its reliance on foreign banks. This new government was controlled by the states that were relegated authority to charter banks to state governments.

The banks could issue bank notes that became the money supply of the nation. Wildcat banking and political problems with bank chartering caused the Congress to establish the First Bank of the United States in 1791, giving it a 20-year charter. The bank was chartered with $10 million in capital. It was to serve as the principal depository of the government. This bank was unique in that it was both a private bank and a central bank with the government owing twenty percent of the stock and the public owing the remaining eighty percent of the stock. This allowed the government to issue currency, operate all over the nation, and compete with the privately owned state banks. This bank got off to a robust start, but its failure to lend money, politics, and the concern by Congress about the centralized power in one financial institution caused Congress to allow the charter to expire after twenty years in 1811. Another major contributing factor in its demise was the lack of trust in the bank by the wealthy citizens in the larger cities. The assets of the bank were distributed to state banks. For the next five years, state chartered banks were the only institutions chartered to conduct banking business. These state banks were, for the most part, poorly managed, and they went wild with their credit extensions and the issuance of bank notes that were nothing more than worthless paper (Hempel and Simonson, 1999; Kaplan, 1999).

2.4.4 Second Bank of the United States

For six years following the closing of the First Bank of the United States, the nation was without a national bank, and the number of state chartered banks increased from eight to 246 (Kaplan, 1999). During this interim period, the government had to turn to state banks for its treasury activities. This was a difficult time in the financial life of this young government. Financial chaos was the order of the day during this six-year period. In 1812, the United States declared war on Great Britain, and they needed a bank that could be used to finance the war effort. This need to finance the war effort brought about the chartering of the Second Bank of the United States in 1816. The charter, like the First Bank of the United States, was for a 20-year period. The Second Bank was chartered with $35 million in capital as opposed to the $10 million in The First Bank. Much like the original bank, the Second Bank could establish branches throughout the nation and was allowed special benefits that were prohibited for state chartered banks.

In addition to funding the war effort, the bank had centralized banking powers and returned conservative lending practices to this growing nation. This bank served as the last central bank until the development of the Federal Reserve System in 1913. Its charter was allowed to expire at the end of the twenty-year term because of heavy political sentiment against the bank, but more specifically the strong influence of Andrew Jackson. Jackson ordered the removal of government funds from the Second Bank's vaults and placed the funds in favored state banks that were politically in tune with him.

2.4.5 U. S. Banking 1819 to 1932

In 1819, the financial panic struck the new nation and its fledgling financial system. This financial depression/panic directly impacted one-third of the population. This Panic was caused by a large unfavorable balance of trade coupled with poor credit judgment impacted by inflation. Employment declined 78 percent between 1816 and 1819, with real estate values declining 75 percent and rents falling from 40 to 50 percent. Kaplan (1999) quoting Samuel Hopkins, president of the Genesee Agricultural Society best sums up the seriousness of the times.

> "My first wish would be to speak in a tone that should rouse the tenants of every log-house in these countries, and make them stand aghast at the prospect of families naked—children freezing in the winter's storm—and the fathers without coats or shoes to enable them to perform the necessary labours of the inclement season." (page 67)

The Second Bank engaged in very liberal credit practices, which were exacerbated by the purchase of a substantial quantity of notes from state banks in an attempt to replace state bank notes with a national currency. The bank experienced serious losses in capital due to the Panic. In fact, with millions of dollars of loans in default, the bank now owned a substantial amount of real estate in many of the cities. A rather severe and rapid decrease in the supply of money and a reduction in available credit brought about falling land sales, and the absence of cash caused interest rates to rise. The panic ended in 1821, but not without some serious financial scars being inflicted on the citizens.

In 1836, the Commonwealth of Pennsylvania chartered a state bank bearing the name, United States Bank of Pennsylvania. Nicholas Biddle, who had been President of the Second Bank of the United States, obtained this charter when his Second Bank charter was not renewed after 20 years. This new bank brought in the management of the former Second Bank to operate the bank. In addition, the citizen stockholders of the Second Bank of the United States agreed to sell the assets to the new bank, with the government not participating in the sale. The stockholders of the new bank agreed to pay the government for its twenty percent interest in the Second Bank.

The Panic of 1837, took its toll on the new bank. While the bank had prospered with the economy, this new financial disaster took its toll and led to the failure of the United States Bank of Pennsylvania in 1841. This panic was caused by the Secretary of the Treasury directing land agents to accept only gold and silver on the sale of public lands. The paper money issued by state banks was now worthless, and people who relied on the various bank's paper currency had no wealth unless they had gold or silver. The government purposed to show a lack of support for the state banks issuing paper currency, hoping that they could obtain some level of control over them. The result was a disaster.

Another Panic of 1839 brought the United States Bank of Pennsylvania to a weakened position with only $1.5 million of capital. When banks were told to resume specie payments or give-up their charter, the bank was illiquid and could not continue. Therefore, the bank failed.

During the period from 1837 to 1863, two kinds of banks existed in the nation. The state banks chartered by state governments which had been in existence for some time, and a new form of banking known as private banks which were allowed to be incorporated under free banking laws. All that was necessary to establish a private or free bank was to meet certain basic regulations. Many of the free banks were poorly run and under capitalized, not able to meet their obligations to the depositors. During this period, the federal government was not involved in banking, and created its own independent treasury. All public funds were kept in the treasury instead of the unsafe banks of the day. This condition remained until the establishment of the Federal Reserve System in 1913.

The Civil War did cause the Congress to pass the National Banking Act of 1863 that once again allowed the federal government to charter national banks and issue national currency. After the Civil War, until the early 1930s, there was economic chaos and financial disaster. The absence of a central bank to regulate the money supply caused serious economic and financial problems resulting in financial recessions in 1873, 1882, 1893-1895 and 1907.

Congress passed the Federal Reserve Act in 1913, which created the Federal Reserve System to provide monetary policy and develop a payment system through the Federal Reserve System of Banks. This was the first modern attempt to control and regulate the money supply. Banking began to flourish during this time with both state and national banks in operation. A concern for the rapid expansion of some banks brought about the passage of the McFadden Act in 1927 to prohibit interstate banking and limit branching of banks to within their own state. Generally, the nation's economy moved ahead steadily until the Great Depression of 1929. The Great Depression was one of the most crippling blows to this nation's economy and saw most of the banks fail and the country's economy in near total collapse (Kaplan, 1999)

2.4.6 U. S. Banking 1932 to 1960

Over 9,600 banks failed during the period of 1930 and 1933. With the nation in near total economic collapse, the Congress passed major financial legislation to restore confidence in the financial system. The first major banking reform act passed was the Emergency Banking Act, which closed all of the remaining 17,000 of the nation's banks for what was known as "the six-day banking holiday." At the conclusion of the "bank holiday," only 12,000 banks reopened. However, these new banking laws greatly restricted the permitted activities of banks, which were basically relegated to passive holders of deposits and very short-term, conservative lenders of money. Congress passed the Federal Deposit Insurance Act in 1933 to create the Federal Deposit Insurance Corporation to provide deposit insurance and to supervise state chartered banks. The Glass-Steagall Act was also passed in 1933 to separate commercial banking and investment banking. The Act was a result of banks going broke because of speculative investments made in investments and securities. There could now be no common ownership between commercial and investment banks.

In 1935, the Banking Act formalized federal banking supervision by creating a Federal Reserve Bank Board of Governors, establishing a Federal Open Market Committee at the Federal Reserve to monitor monetary policy, and making permanent the Federal Deposit Insurance Corporation. This single act established once and for all times federal power to regulate or have oversight for all banks whether national or state chartered. Another major benefit of the act was to give the Federal Reserve Bank power to provide sources of liquidity to any troubled bank. During this period, the government was concerned with the creation of too many banks and the serious competitive effects that might result. So until the mid-1950s, there was relatively little competition among banks hence there was no need to be conscious of service quality.

With banking activity increasing during the decade of the 1950s, the Bank Merger Act of 1956 was passed which required Federal Reserve Bank approval for merger or acquisition of banking institutions. Banks still could not own banks in other states (Rose, 2002).

2.4.7 U. S. Banking 1961 to 1980

For almost 40 years after the Great Depression of the 1930s, banking was relatively stable with very few bank failures. Banks enjoyed a unique dominance of financial markets until the 1960s. Banks that skirted the laws to keep banks conservative eroded many of the reforms passed by Congress in the 1930s. At the same time, a global financial market increased competition for the banking dollar. Extreme inflation and volatile interest rates in the mid-1960s had a serious impact on the dominance that banks had enjoyed. For the first time, depositors took their money out of banks and put them into higher yielding equity investments in the financial markets. This resulted in banks facing a shortage of money to loan, and they were unable to honor many of their commitments to their borrowers. The larger corporate borrowers turned to the less expensive commercial paper market for their money needs.

In 1970, Congress saw a need to allow a more liberal means for banks to acquire or merge with other banks so they passed the Bank Holding Company Act. At about the same time, the Federal Reserve removed interest rate ceilings on time deposits, which opened the flood gates for paying what the “market would allow” for needed deposits. The removal of the interest ceiling was a major factor in the increase of banking and other financial institution competition and for the first time, customers became very price sensitive. This time period ushered in the deregulation of banking, which meant for the first time since the Great Depression government was now going to have a more limited role in regulating the banking climate.

With more competition from global markets, banks called upon Congress to subject foreign banks that operated within its shores to be subject to regulation by the U. S. that resulted in the passage of the International Banking Act of 1978. Social change in the nation caused the government to force banks not to discriminate against classes of people. All of these events had a major impact on banks’ bottom-line profits.

As if banks did not have enough elements working against them, in 1980 Congress passed the Depository Institutions Deregulation and Monetary Control Act removing mandatory ceilings on interest rates paid by banks and allowing interest-bearing checking accounts for the first time.

2.4.8 U. S. Banking 1981 to Present

During the early 1980s, there was a national movement to remove the remaining restrictions on banking imposed in the early 1930s. The first casualty of the massive deregulation was the savings and loan industry. Interest rates had not moved a significant amount over the years leading up to the turbulent 1980s so the savings and loan industry had made long-term, fixed rate loans without any consequence. However, when rates skyrocketed, the entire industry was in chaos with over two-thirds of all savings and loans collapsing.

Banking was continuing to feel the pressure of competition and encouraged Congress to pass the Garn-St. Germain Depository Institutions Act in 1982 which allowed banks to compete with money market mutual funds and expanded banking powers to allow more competition with other non-bank entities. Even with these new powers, banks felt that they needed to be able to sell non-conventional bank products such as insurance.

During the period 1984 to 1992, pressures on banks caused the highest number of bank failures since the Great Depression Era. Over 1,300 banks failed during that time period. The primary culprit for the failures was unsound and unsafe banking practices such as bad loans and fraud. In 1986, banks sued for power to sell insurance and were allowed to sell insurance by court order in small towns of 5,000 populations and under. At about this same time, a number of non-bank corporations saw banking as an attractive market and sought governmental approval to get into the banking business. As part of the deregulation wave across the nation, Congress passed the Competitive Equality in Banking Act in 1987, which allowed the creation of non-bank banks to compete with commercial banks, and allowed banks to branch across state lines.

Much like the reforms of the 1930s, Congress passed sweeping laws in an attempt to strengthen the banking system. To respond to the concern for capital equal to the risk being taken by banks, the government ratified the 1988 Basle Agreement, which imposes minimum common capital standards on banks throughout the world based upon balance sheet and off-balance sheet risk factors and special contractual obligations. The most sweeping and far reaching piece of banking legislation, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 was created to deal with banking and thrift institution failures. This act provided legal authority to the federal regulatory authorities to subject banks to substantial money penalties without court approval, if they operated their banks in an unsafe and unsound manner. The 1991 FDIC Improvement Act established fees for deposit insurance-based risk. In addition, the Truth in Savings Act required greater disclosure on the terms and fees related to time accounts.

By the end of 1992, banking was a healthy industry once again, and the emphasis was on the need to allow banks to conduct their operations across state boundaries. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1984 allowed interstate banking for the first time. Well-established and sound bank holding companies were allowed to acquire banks in any state and set up branches in other states. Banking enjoyed some of its most profitable years in the late 1990s, which caused a cry for banks to be able to compete with all financial institutions such as insurance companies, merchant banks and investment firms. In response to the bankers’ desire for more powers, the Congress passed the Gramm-Leach-Bliley Financial Services Modernization Act of 1999. This act was the most important piece of banking legislation in the past 66 years. It allowed banks to enter investment underwriting, insurance, and merchant banking. Interestingly enough, relatively few banks have taken advantage of the expanded opportunities afforded by Gramm-Leach-Bliley.

Table 2.2 Number and Total Assets of Commercial Banks in the U. S.		
		Total Assets
Year	**Number of Banks**	**(dollars in millions)**
1811	88	$ 42
1820	307	103
1830	329	110
1866	1,391	1,673
1880	3,355	3,399
1900	13,053	11,388
1920	30,909	53,094
1930	24,273	74,290
1940	15,076	79,729
1950	14,676	179,165
1960	13,999	230,046
1970	14,199	518,220
1980	15,120	1,704,000
1981	15,213	1,781,700
1982	15,329	1,972,100
1983	15,380	2,113,100
1984	15,023	2,348,900
1985	14,797	2,581,600
1986	14,559	2,763,400
1987	13,987	2,998,300
1988	13,398	3,101,200
1989	12,816	3,283,900
1990+	12,343	3,389,500
1991	11,921	3,430,700
1992	11,462	3,505,700
1993	10,958	3,706,200
1994	10,450	4,010,500
1995	9,940	4,312,700
1996	9,528	4,578,300
1997	9,143	4,869,500
1998	8,774	5,442,600
1999	8,581	5,734,800
2000	8,315	6,238,700
+Only insured commercial banks are included after 1990. In 1998, the number of uninsured banks was less than 60.		

SOURCE: Hempel, George H. and Donald G. Simonson (1999) with additions

Intense competition exists in the financial services industry, and since most banks offer the same products, the only way to differentiate between banks is the level of quality service, convenient locations, hours of operation, and other intangibles. It would appear that the challenge ahead for banking in the U. S. lies in how to capture a greater market share, while sustaining a reasonable profit margin. Table 2.2 above reflects the changing face of banking over 200 years.

2.5 Banking in the State of Texas

The first bank in Texas was established in 1822 when Texas was a province of Mexico. This bank was known as Banco Nacional de Texas. It was not until 1848, when the State of Texas became a part of the United States that R. & D. G. Mills established a private bank in the state. This was the beginning of state banking in the state of Texas. However, it was not until 1905 that the state of Texas chartered the first state-chartered bank. The new banking law allowed anyone with five people who had the capital and who met the residency requirements to have a state banking charter. The new law was very explicit concerning the prohibition of any branch banks. Four groups took advantage of the law and obtained state banking charters, the first bank being the Union Bank and Trust Company of Houston, Texas.

There was a high demand for charters, and during the first five years there were more that 600 charters granted. Also, during these first five years 52 of the banks surrendered their charters, with twelve of them never opening for business. The Panic of 1907 occurred with a decline in precious metal prices, causing a run on the Mercantile National Bank of New York, which spread to many banks across the nation that did business with them. As a result many enterprises failed and the Commissioner of Insurance and Banking of Texas declared a “bank holiday” and suspended operations for a period of time. The Panic of 1907 had little long lasting effect on the economy of Texas or the banks, but the state slowed down the number of bank charters being granted.

With many problems in private banks not chartered by either state or federal governments, the Legislature of Texas passed a law requiring private banks to be subject to regulation and supervision of the state. At the same time the state established a deposit guaranty fund, which made it one of only five states to guarantee deposits' safety. Political problems forced the withdrawal of the guaranty fund in 1927.

The 1920s saw a rebound to the economy that had faltered in 1907 and took some ten years to recover. With the passage of the Federal Reserve Act of 1913, many state banks sought to become members of the Federal Reserve, which gave them access to the nation's reserve bank's discount window. However, to become members, they had to obtain a national banking charter and give up their state charter.

The banking system was rocked with scandal when the commissioner and the governor were indicted for misapplication of bank funds. While the banking commissioner was exonerated, the governor was impeached and removed from office for misappropriating funds.

Banking in the state prospered until the Great Depression hit the nation. Many banks failed during the early 1930s. The economic conditions in the state did not parallel that of the nation as a whole. The development of oil and gas production helped offset some of the severe impacts to the general economy. The number of state-chartered banks declined from 699 to 395 from 1930 to 1939.

With all of the banking laws passed by the federal government, the act that Texas bankers most disliked was the Federal Deposit Insurance Act, which provided depositor insurance in all national and state-chartered banks. Texas fought the Act to no avail. Depositor insurance has been the single most important issue in financial stability.

The state banking system saw unprecedented growth in the years between 1940 and 1970. Of course, much of the early impetus to the economy was brought about by mobilization of the war effort to fight World War II. During these years, the state banks enjoyed their longest period of consistent stability.

State-chartered banks rocked along with a high degree of expansion and success until the mid-1980s when a major recession hit the nation. Additionally, oil prices fell drastically during this time, and for a state whose major industry was oil development and production it spelled financial disaster. Banks failed at an even greater rate in the state than in most other states. It was thought that allowing branch banking in Texas might help the banking economy so a law was passed to allow branch banking throughout the state. Texas was one of the last states to allow branch banking.

Today, the banking system in Texas is healthy and continues to expand. Most of the development of banking in the 1990s to present has paralleled the nation's banking system.

2.5.1 Early History of Banking in the State of Texas

Banking developed slowly in the state because the Constitution of Texas prohibited chartering of banks in the state. Private banks began to spring-up within the state, and Table 2.3 taken from Grant and Krum (1978) page 31 illustrates the large number of private banks from 1877 to 1905. Good records before 1877 on private banks are non-existent, but we know that they were chartered and closed on a regular basis.

The founding fathers of the state were vehemently opposed to the chartering of banks by the state government. Further, they also opposed private banking, and sued in Federal Court to have the bank established by R. & D. G. Mills closed and fined for operating in the state. The courts held in favor of the Mills group, and private banking flourished. In the interim period before the state constitution permitted state-chartered banks, private banks dominated the landscape and operated in an unregulated, and in many cases, a reckless fashion that cost depositors thousands of dollars. These private banks were issuing paper

Table 2.3 Private Banks in Texas, 1877-1905

Year	Banks	Year	Banks
1877	73	1892	127
1878	78	1893	133
1879	79	1894	128
1880	85	1895	131
1881	98	1896	153
1882	124	1897	147
1883	123	1898	165
1884	122	1899	187
1885	116	1900	190
1886	112	1901	195
1887	122	1902	168
1888	130	1903	183
1889	138	1904	184
1890	148	1905	197
1891	145		

Source: Grant and Krum, 1978, modified.

money without any bullion to back it, which often resulted in worthless pieces of paper. Additionally, national banks, which seemed to have more creditability with the citizens, competed feverishly with private banks for the banking-public's deposit dollars (See Table 2.3 above).

These private banks opened and closed with great regularity, costing investors and depositors alike. With the courts ruling in favor of private banking and reluctance on the part of the state government to allow state chartered banks, these banks ran very loose without any controls imposed upon their operations. Until the first national bank was chartered in 1865, the private banks controlled all of the banking activity within the state of Texas. Coupled with their practices was the frontier nature of the economy, which ebbed and flowed with the least economic setback (Grant and Krum, 1978).

2.5.2 Texas Banking 1863 to 1904

In 1863, the Congress of the United States authorized the chartering of national banks throughout the nation. The first nationally chartered bank was established in the state in 1865, and for the next ten years very few national banks were chartered. As the young state grew, more and more national banks were chartered to handle the banking needs of these enterprising pioneers. After a rather slow start, national banks were chartered with reckless abandon to compete with the private banks for the depositors' dollars. With so many banks to compete for so few dollars, each bank tried to give the customers more than their competitor bank was offering. This fierce competition led to reckless lending and other unsafe banking practices that caused many banks to fail and customers to lose their money. Grant and Krum (1978) noted in Table 2.4 the influx of national banks with a table showing the number of national charters in Texas from 1865 to 1905, when the state first authorized state-chartered banks.

When the National Bank Act of 1863 authorized national bank charters, it authorized a bank supervisory agency known as the Comptroller of the Currency that was established to be free from political influence. The Comptroller's office served two purposes. First, it was designed to approve all national charter recipients before they were granted a charter. The other role was to supervise and examine national banks to insure their performance to be safe and sound.

As private banks saw the advantage of a supervising agency for the national banks, a number of private banks voluntarily submitted their records and reports to the Comptroller of the Currency. During the 1880s to 1890s, private banking began to decline. The reason for this decline was the reduction of the amount of capital necessary to charter a national bank from $50,000 to $25,000. With this lower amount of capital, it made national bank charters the bank of choice. Until 1905, when the state of Texas allowed state-chartered banks, national banks dominated banking in the state. The frustration of many leaders in the state is reflected in a quotation from Senator Daniel Webster on March 12, 1838 when he stated:

> "There are persons who . . . cry out loudly against all banks and corporations . . . . They would choke the fountain of industry and dry up all streams." (Gatton, 1984, page 53)

By 1880, Texas ranked eleventh among all of the states in the United States in terms of population, and the people were frustrated by the fact that their state could not charter a bank. The Texas Bankers Association was formed in 1885.

Table 2.4 National Banks in Texas, 1865-1905					
	Total Resources			**Total Resources**	
Year	**Banks**	**($000)**	**Year**	**Banks**	**($000)**
1865	1	100	1885	68	25,237
1866	4	1,369	1886	74	28,254
1867	4	2,017	1887	91	34,260
1868	4	1,921	1888	100	39,415
1869	4	1,779	1889	135	55,560
1870	4	1,891	1890	198	73,240
1871	5	2,656	1891	207	74,293
1872	5	2,782	1892	223	84,765
1873	7	3,334	1893	221	72,723
1874	9	3,537	1894	218	77,061
1875	10	3,617	1895	213	77,831
1876	10	3,622	1896	204	71,835
1877	12	4,171	1897	202	81,007
1878	11	4,103	1898	196	86,737
1879	11	4,373	1899	199	97,689
1880	14	5,741	1900	234	131,557
1881	12	7,948	1901	290	139,016
1882	24	12,246	1902	345	145,860
1883	46	18,132	1903	377	166,644
1884	61	20,652	1904	420	192,723
			1905	440	189,484

Source: Grant and Krum (1978, page 34)

2.5.3 Texas Banking 1905 to 1929

A new era was dawning in Texas. Political leaders finally yielded to pressure and allowed state-chartered banks in Texas in 1905. The new law allowing state-chartered banks had a specific prohibition against any form of branch banking in the state, which remained in place for over 80 years. Union Bank and Trust Company of Houston, Texas was the first bank chartered by the state. During the next five years, 600 charters were granted. For various reasons, 52 of the banks surrendered their charters, with twelve of them never opening for business. An economic phenomenon occurred in the form of newly

Table 2.5 State-Chartered Banks 1905-2000		
Year	**Banks**	**Total Assets ($000)**
1905	29	4,341
1906	136	19,322
1907	309	34,734
1908	340	40,981
1909	515	72,947
1910	621	88,103
1911	688	98.814
1912	744	138,856
1913	832	151,620
1914	849	129,053
1915	831	149,733
1916	836	206,396
1917	874	268,382
1918	884	259,881
1919	948	405,130
1920	1,031	391,127
1921	1,004	334,907
1922	970	338.693
1923	950	376,775
1924	933	391,040
1925	834	336,966
1926	782	290,554
1927	748	328,574
1928	713	334,870
1929	699	332,534
1930	655	299,012
1931	594	235,681
1932	540	208,142
1933	489	185,476
1934	460	197,969
1935	442	205,729
1936	426	228,877
1937	415	217,355
1938	406	217,944
1939	395	241,883
1940	393	227,866
1941	391	312,861
1942	391	417,058
1943	391	574,463
1944	398	780,910
1945	409	998,355
1946	418	1,019,369

Table 2.5 State-Chartered Banks 1905-2000 Continued		
Year	**Banks**	**Total Assets ($000)**
1947	436	1,149,887
1948	444	1,208,884
1949	446	1,283,139
1950	449	1,427,680
1951	453	1,571,823
1952	457	1,742,270
1953	460	1,813,034
1954	465	1,981,483
1955	472	2,087,066
1956	480	2,231,497
1957	486	2,349,935
1958	499	2,662,270
1959	511	2,813,006
1960	532	2,997,609
1961	538	3,297,588
1962	551	3,646,404
1963	570	4,021,033
1964	581	4,495,074
1965	585	4,966,947
1966	591	5,332,385
1967	597	6,112,900
1968	609	7,107,310
1969	637	7,931,966
1970	653	8,907,039
1971	677	10,273,200
1972	700	12,101,749
1973	716	14,092,134
1974	744	15,654,983
1975	752	17,740,669
1976	761	19,846,695
1977	773	22,668,498
1978	786	25,987,616
1979	807	30,408,232
1980	825	35,186,113
1981	829	42,071,043
1982	841	48,336,463
1983	848	55,008,329
1984	855	60,361,504
1985	878	64,349,869
1986	895	65,989,944
1987	812	54,361,514

Table 2.5 State-Chartered Banks 1905-2000 Continued		
Year	**Banks**	**_ Total Assets**
($000)		
1988	690	40,791,310
1989	626	40,893,848
1990	578	45,021,304
1991	546	46,279,752
1992	529	40,088,963
1993	510	44,566,815
1994	502	47,769,694
1995	479	49,967,694
1996	445	52,868,263
1997	421	54,845,186
1998	395	50,966,996
1999	373	52,266,148
2000	351	53,561,550

Source: *Texas Almanac 2002-2003* Dallas, TX: The Dallas Morning News, L. P., (2001), page 561 with changes

discovered oil wells that would impact the economy in a positive way from that day to the current time. Texas was now a developing economic force in the United States. Table 2.5 shows state-chartered banks by year, number, and assets.

Texas' economy was impacted less than the rest of the nation, but it still had a number of enterprises fail and banks severely weakened. As a result of the panic, the Commissioner of Insurance and Banking for the state declared Texas banks to be strong and not threatened (Gatton, 1984).

To strengthen banking after the Panic of 1907, the Legislature of Texas passed a law requiring private banks to be subject to regulation and supervision by the state. At the same time, the state established a depository guaranty fund, which made the state of Texas one of only five states to guarantee customers' deposits for safety. Bankers were almost equally divided against such a guaranty fund, and as a result, the state legislature voted it out in less than two years. One of the interesting periods in Texas banking was the national Panic of 1907 which caused economic chaos because of steep declines in precious metal prices. The "free-banking period from 1905 to 1913. During that period, the only cost for chartering a state-chartered bank was the payment of a fee to the state. No set amount of capital or other requirements were made. With the lowering of standards, many of these new banks were formed without adequate capital. It wasn't until 1911, when B. L. Gill became the Commissioner of Banking that an effort was made to minimize the number of charters issued and increase the amount of capital required. Gill's efforts were met with substantial pressure from political forces trying to obtain charters for their friends. However, Gill was undaunted and was successful in the prudent distribution of bankcharters issued and increase the amount of capital required. In an official report by Commissioner Gill, he noted:

> "I am forced to ask where will the formation of new banks end, and should there not be a limit placed on small, weak banks? Their rapid organization is a source of anxiety to this Department, and it is a matter of regret that the Banking Board is not vested with more power to restrict their organization." (First Annual Report, Page 5)

In 1912, there was a concern nationally and in Texas also about a need for currency reform and a central bank for stability and monetary policy. Texans favored the reform and the concept of a quasi central bank, perhaps because of the instability brought about by the "free-banking period". As a reward to Texas for supporting the banking reform concepts and the quasi central bank, it was awarded one of the twelve regional banks of the Federal Reserve System in 1914. The stability of the economy was impacted by the outbreak of World War I in July 1914, and continued to weaken until shortly after the war ended in June 1919. During this period, there was only an increase of fifty-two state-chartered banks. Additionally, a large number of banks converted to national charters to take advantage of the benefits provided by the Federal Reserve System and the prestige afforded by a national charter. There was no doubt that the Federal Reserve System strengthened the banking system (Gatton, 1984).

Beginning with the recession in 1920, the Texas economy suffered in a major way, which created a number of bank failures and mergers. The recession was short-lived and saw a turn-around in late 1921. From 1921 until the beginning of the Great Depression in 1929, the economy boomed in Texas and banking grew both in the number of banks and the total assets held by banks.

2.5.4 Texas Banking 1930 to 1939

Many banks failed during the early 1930s as the effects of the Great Depression impacted the United States. The President of the United States declared a "bank holiday" closing all of the banks in the nation for a three-day period to allow the panic of the depression to subside. While the economic impact of the times was bad, it did not impact Texas as much as other states because the oil and gas production helped offset some of the severe impacts to the general economy. However, it should be noted that the number of state-chartered banks declined from 699 to 395 during the period 1930 to 1939 according to Grant and Crum (1978). To promote recovery in the nation, many laws were passed, along with reform legislation, but the most unpopular to Texas bankers was the Federal Deposit Insurance Act that provided depositor insurance to all national as well as state-chartered banks. In the long run, the Act has provided more stability to the banking system that any other single factor. In 1935, the Texas Legislature passed a law to allow all state-chartered banks to take advantage of the benefits provided by the Federal Deposit Insurance Corporation. Most of this decade was utilized to recover from the Great Depression and to shore-up weak banks.

2.5.5 Texas Banking 1940-1969

The beginning of World War II in 1941 ushered in the decade of the 1940s. The war years produced substantial spending to finance the war effort, and an economic boom resulted. Banking in Texas and the entire nation prospered. Texas banks played a key role in financing the war effort, with most of the state banks taking on all of the government-guaranteed financing of the war machine.

In 1943, the first major revision of the laws relating to the banking industry since 1905 was brought about through the new Texas Banking Code of 1943. While a substantial portion of the original code of 1905 was retained, the state took this opportunity to eliminate ambiguity, conflicts, and outmoded sections of the law. The most important feature was the creation of a Finance Commission, which took politics out of the hiring of the banking commissioner and had oversight of the Banking Department.

In 1946, following World War II, the Texas economy grew at a substantial and healthy rate. Likewise, the state's population and wealth expanded greatly.

Only 18 state banks failed in the period from 1946 to 1969. Banking history was made in the state when the Bank of Texas in Houston was allowed to form a one bank holding company, transferring all of its stock from the bank to the holding company. According to Grant and Crum (1978), loans grew 2,288 percent in the period between December 31, 1945 and December 31, 1969, answering pent-up demand for credit after the war. Likewise, the easy monetary policies of the Federal Reserve helped to make this credit availability possible.

A bill to authorize branch banking in the state in 1965 was defeated when the state's bankers acting through the Texas Bankers Association passed a resolution opposing branch banking within the State of Texas. The bill was defeated, and an effort to allow branch banking in the state's four largest cities in 1967 was again opposed by the bankers and was defeated.

2.5.6 Texas Banking 1970-Present

As Texas banking moved into the 1970s, the economy was overheated, but continued to grow as thousands of new citizens moved into a state that was the fastest growing of the 50 states (Texas Almanac, 1979). Electronic banking made its entrance in the state and a new law was passed to allow for electronic funds transfer. Another attempt at a modified branch banking bill passed the legislature with provisions for only expanded drive-in bank facilities, but the governor did not sign it into law. The state was evolving during this time from a rural agriculture economy to a modern, high technology society. In the decade between 1970 and 1980, deposits in Texas increased 212 percent, far outstripping deposit growth in other states. Also during this decade, in migration of people into the state was at the rate of 1,300 people per week into the Dallas area and 2,500 people per week into the Houston area (Texas Almanac, 1987).

Prior to 1970, the larger commercial enterprises were forced to utilize out-of-state banks due to the large size of their loan requirements. Multi-bank holding companies and one-bank holding companies became very popular in the 1980s. Once the holding company device became commonplace, Texas banks were able to handle most of the credit needs of their largest commercial companies. In 1981, the ten largest Texas bank holding companies controlled approximately 43 percent of the total bank deposits in Texas. With the growing state economy, 45 foreign banks had offices in Texas with the majority in the city of Houston where they could finance international petrochemical operations and products coming through the Port of Houston (Texas Almanac, 1979).

In the mid-1980s, Texas banks fell on hard times. The price of oil declined sharply, and the economy of the state relied heavily on the oil and gas industry for its economic health. Banks in the United States and the state began to fail at an alarming rate. During the period from year-end 1984 to year-end 1999, there was a reduction in number of banks by 1,101 in the nation and 482 in the state of Texas. While a portion of this reduction in number of banks was a result of weaker banks being merged or absorbed into stronger banks and holding companies, the majority of the reduction was a result of bank failures (Texas Almanac, 2001)

With the economic hard times impacting the Texas economy, the bankers and the governmental officials decided in 1986 to allow branch banking in Texas. The branch banking law was an amendment to the 1980 provision that allowed banks to have automated teller machines away from their physical facility, but within their county. This 1986 amendment allowed banks to operate additional banking facilities within their home city or county. An additional amendment was passed to allow banks to operate outside their home county, if they purchased a failed bank domiciled in another county.

Later in 1986 as the banking system continued to weaken, the Legislature authorized interstate ownership of Texas banks by out of state banks. Immediately, on consecutive days, Chemical Bank New York purchased Texas Commerce Bancshares to become the fourth largest bank in the nation, and Republic Bank Corporation purchased InterFirst Corporation to form the 12th largest bank in the nation. Texas banking was at a crossroads with only a couple of large banks left that were state based. One of these banks failed, which left only one large Texas based bank holding company, Frost Bancorp headquartered in San Antonio, Texas (Texas Almanac, 1987).

In 1988, the economic bottom fell out of the Texas market, and banks continued to fail as many loans defaulted. Additionally, the savings and loan crisis further heightened the economic downturn in the state. Credit standards became strict and very few companies could get loans to grow and expand businesses. It was not until 1993 that the Texas economy began to return to some normality. The period from 1993 to 1999 was one of recovery and growth During this period of economic growth, a number of new banks were chartered and competition increased from within the banking industry as well as from credit unions, savings institutions, and non-bank financial firms. It would appear that the challenge ahead for banking in Texas lies in how to capture a greater market share, provide quality service, and maintain a reasonable profit margin. (Texas Almanac, 2001).

The unique nature of banking in the United States and the state of Texas sets them apart from most banks in developed countries throughout the world. The laws, rules, and regulations were somewhat limiting for many years concerning how banks could expand and do business. With the history of banking in both the United States and Texas presented, the stage is set to examine why customers choose a bank.

2.6 Why Customers Choose A Bank

The American Bankers Association (1994) reported that during the past decade banks have seen their customer base decline. Efforts to reduce this decline have not proved successful to date. One thing that appears to be promising is the implementation of good customer service. To implement good customer service, it has been shown that researching customer expectations and determining customer desires is vital. Studies have shown that developing programs that revolve around customer expectations is necessary in the implementation of a successful customer relations atmosphere (Zeithaml, Parasuraman, & Berry, 1990). This directly relates to the implementation of a successful customer satisfaction program that measures and delivers goods and services.

Kessler (1996) noted that increasing satisfaction requires an understanding of what it is and how it is to be handled. There are three levels of customer satisfaction according to Noriaki Kano (Kessler, 1996). They are expected quality, desired quality, and excited quality. An example of expected quality would be the receipt of a deposit slip when a deposit is made at the bank. The receipt is definitely expected by the customer. Assume the customer had to spend a substantial amount of time waiting in line to make that deposit. The customer did not expect to spend that much time in line, in which case this goes to quality expectations of the customer. If the bank can shorten the wait in line, it will surely enhance desired quality. Excited quality may be a gift given to the customer when a deposit is made. This adds value to the service and consequently causes the customer to enjoy the banking experience. It has been noted that features considered excited quality might easily become expected. For example, when a bank traditionally gave a gift when the customer made a deposit, and then discontinued the practice, they may have found extreme disappointment (Kessler, 1996).

While many methods for improving customer satisfaction have been developed, customization of banking services may prove highly successful. According to Kotler, bank customization may be exemplified in the following manner:

> "Instead of viewing the bank as an assembly line provider of standardized services, the bank can be viewed as a job shop with flexible production capabilities. At the heart of the bank would be a comprehensive customer database and a product profit database. The bank would be able to identify all of the services used by any customer, the profit (or loss) on these services and the potentially profitable services which may be proposed to that customer (quoted in Gutek, 1995, p. 202)."

Banking in the United States

For the bank to be able to utilize customization, it must determine what services the customer wants and needs. Then, the bank must strive to continually maintain exceptional service. It must also determine which services add value to the relationships to set it apart from the competition. Reliability in meeting customer service expectations is one of the most important dimensions of the service element (Berry, 1995). Simply providing an expected service in a reliable manner does not allow for a bank to exceed customers' expectations. Customers do not view a service that is expected to be provided by an organization as one that should receive praise.

"Companies that surprise customers with unusual caring,
commitment, or resourcefulness during the service process
receive the extra credit." (Leonard Berry, 1995, p. 89).

The providing of service that is above and beyond expectations cannot be accomplished until expected service is determined. Customer desires and needs must be determined when implementing a competitive customer relations program.

In a study of Texas banks by Bexley (1999), customers were asked to rank the importance of criteria for selecting a community bank, choosing from advertising, location, recommendation of others, service charges or fees, and service quality. On average, service quality was ranked as the most important. Location was second in importance, with service charges or fees in third place, recommendation of others was fourth, and advertising ranked fifth. A few customers selected the category "other".

2.7 Consumer Attitudes and Behavior Towards Commercial Banks

In addition to the value mined from the history of banking in both the United States and the state of Texas, the consumer attitudes and behavior towards commercial banks is vital to the acquisition and retention of customers. Delivering banking services to the consumer that they perceive that they need has a major impact on attitudes and consequently, behavior. Failure to meet the consumers' desires can often result in the loss of customers to competing financial organizations. The specific banking products and services sought by the consumers has changed throughout history based upon banks ability to develop products and services to meet their needs and the technology to effectively and efficiently deliver them to the customer at a competitive price.

2.7.1 Consumer Attitudes and Behavior Prior to 1930

Going back to the beginning of banks in both the United States and the state of Texas, consumers were greatly concerned by the lack of stability of banks. Their major concerns were based upon the bank not failing and consequently losing their funds. The only products and services available during this early period were depository accounts. There were no interest bearing accounts available. Loans were limited to a very small portion of the population, usually based upon political influence or substantial wealth. Runs on banks with resulting closure and no insurance to protect the depositors occurred with great frequency (Mishkin and Eakins, 1999).

2.7.2 The Economy and Competition Assists Consumers 1930 to 1945

The colossal collapse of the nation's financial system and the Great Depression in the late 1920s and early 1930s brought about a substantial change to banking system, and as a result, a new era for the consumer. Government took major action to insulate the financial system from ever subjecting the consumer to loss of funds as a result of a banking run or failure by providing deposit insurance protection. Now consumers could feel comfortable with their money residing in a bank. Further legislation reduced taxes and promoted industrial development. Consumers could get checking accounts and also savings accounts that paid interest. Additionally, credit became more readily available to the general consuming public. Banks did not offer home mortgages, and as a result groups of people banded together to form savings associations to pool their money to be made available for home financing. Financial institutions were generally not aggressive in seeking new customers and tended to wait for customers to walk in to their organizations (Currie, 2004).

2.7.3 End of World War II Brings New Consumer Era

World War II saw many women working in factories for the war effort while the men were away fighting the war. The successful conclusion of the war saw the beginning of women in the business world with buying power and the demands on financial institutions to deliver the products they wanted. At the same time, soldiers coming home from the war demanded home ownership, which in the past was limited to a small portion of society.

To meet these needs, savings and loans became the dominant player in proving mortgages. Banks saw the need to get into the mortgage business or suffer substantial losses in customers to the savings and loan industry. Additionally, all of the new money in the economy after the war caused the creation of new businesses and with these new businesses the beginning of commercial checking accounts.

During this era, banking in the United States changed forever. An industry that had seen virtually no competition saw banks emerge in greater numbers. Since most banks offered essentially the same products, service now became a more important element in the equation for obtaining and retaining customers (Grant and Krum, 1978).

2.7.4 Today's Consumer Versus A View of The Future Consumer

Today's consumers are focused on the information age. They want Internet access to their accounts without visiting the bank, but when they do visit the bank they want immediate response accompanied by quality service. The advent of the information age began in the late 1990s with limited electronic access to accounts. In 1998, at least 10 million U. S. households had DSL (digital) technology, and with this Internet connectivity came a cultural shift in the way Americans conducted their banking business. The consumer expects to get things accomplished instantly, efficiently, and without human mediation. Perception of reality in terms of distance, hours, etc. no longer exists. Today's competitive banks have computer banking, unattended telephone balance response, and automatic bill paying in addition to the traditional banking services (Althouse, 1999).

In an address to the Independent Community Bankers of America, Jeanne Althouse (1999) provided a look at the 21st century customer:

1. Over half will be college educated and in the next 10 years over 70 percent will have a college degree.
2. Currently average $40,000 family income per year, which should increase to $60,000 in 10 years.
3. Future customers will be seeking control, better information, interaction, convenience, and quality service as opposed to the current traditional customer who seeks price, accessibility, convenience, and quality service.
4. The educated customers of the future will have more accounts with 20 percent of all new consumers and 42 percent of college graduates having four or more financial accounts.
5. The customer of the future will like electronic payments with 18 percent using them.
6. They will be high information comparison seekers with over 40 percent using three or more sources to confirm accuracy of financial data.

While customers' desires and needs have changed and will continue to change with the improvements in technology, it should be noted from the above comparison of current customers and future customers one constant that has not changed is the desire for quality service delivery. This study seeks to examine customer expectations versus perceptions with a view toward the changing customer environment as it relates to quality service delivery.

The Banking Commissioner for the state of Texas, Randall James (2005), recently reported in an address to bank directors and chief executive officers that the state can expect an increased level of competition from at least five major banks headquartered outside of the state who will have over 200 branch locations, and with this increased competition, he noted that quality service delivery by bankers who understand what the customer is seeking will be a major factor in the success of all banks who compete within the state.

It becomes obvious with the demands of future customers and the increased competitive banking forces that banks must seek the most effective means possible to seek new customers and retain existing customers. Given this need, it is imperative to examine the avenues of delivery available to provide quality service.

2.8 Chapter Summary

The discussion in this chapter started with an overview of the unique nature of commercial banking in the United States being decidedly different from that of most other developed countries. It pointed out that until 1997, this was the only country that did not have a true branch banking environment that operated with branches throughout the nation. As a result of the banking system utilized earlier, the United States had some 9,000 banks, while most developed countries had fewer than 100 commercial banks and some had only three or four banks with many branches throughout the countryside.

Banking in the United States

It was noted that the banks in the United States tend to be smaller than those in other countries as a result of this earlier banking system. There is no true central bank for the United States, as you would find in most other countries. The Federal Reserve Bank became the quasi-central bank in 1913 for the purpose of controlling the money supply and serving as the depository of the government's money. Their role has basically not changed, and there still is not a true central bank in the United States.

Over the years, commercial banking has evolved into community banks and large banks, sometimes referred to as multi-regional or multi-national banks. Community banks are generally considered to be banks under a billion dollars with local ownership. The large banks are generally over a billion dollars in assets and serve a larger region than community banks. The chapter further noted that definitions of both types of banks are imprecise, but serve as a basic delineator between banks.

As noted in the chapter, the history of banking in the United States and in Texas reads like a novel with financial ups and downs, political skirmishes, and emotional issues. Banking history in the U. S. had its beginnings in 1781, when the Bank of North America, a state-chartered bank, became the first bank with an official charter.

The most important aspect of banking history revolves around the consumer and how their attitudes and demands have changed over several hundred years. It becomes obvious from examining consumers' needs that banks must change to obtain new customers and retain existing customers. The customer of the future will put even more demands on banks competing from their services.

Chapter Three

Customer Satisfaction

3.1 Introduction

This study attempts an empirical investigation of the service quality process in community bank settings. One of the study's major contributions to the advancement of knowledge is the investigation of the service quality process from a comparative perspective wherein customer perceptions and expectations are measured against those of community bank chief executive officers. Most of the existing literature refers almost exclusively to service quality from either a customer perspective or from an overall bank perspective. The concept advanced within the present study focuses on the process from the customer's perception of the service provided contrasted to desired or expected service. Additionally, the study attempts to further incorporate community bank chief executive officers' perceptions of customer expectations. From this study, an attempt will be made to build a customer indicator retention grid.

The aim of this chapter is threefold. First a discussion of the evolution of the literature on customer satisfaction as it relates to customer loyalty, customer retention, and customer relationship management will be presented. Then, the characteristics of customer loyalty, customer retention, and customer relationship management will demonstrate their impact on overall customer satisfaction. The chapter concludes by providing concepts that indicate the interrelationships of customer loyalty, customer retention, and customer relationship management and how they impact the customer satisfaction in this study.

3.2 Customer Satisfaction

There has been an on-going debate on the methods utilized to assess service quality and customer satisfaction since a study by Reichheld and Kenny (1980) found a positive financial impact as a result of customer satisfaction, which prompted others to pursue the study of customer satisfaction.. Peters and Weterman (1982) provided additional impetus to examine customer satisfaction by demonstrating the value of customer satisfaction to a firm as opposed to the previous emphasis of satisfying the customer through the product delivered. After these pioneer efforts were published the interest of researchers was peaked to support as well as refute this new approach to customer satisfaction. Numerous attempts were made to interrelate at least a casual link between customer satisfaction and service quality, albeit that customer satisfaction was considered to be experiential at a specific level where service quality was a global attempt to reflect an attitude.

With the focus of customer satisfaction now turning away from product and toward the delivery mechanism, Berry (1983) coined the term relationship marketing, which brought about a new approach that resulted in the study which came to be called customer relationship management (CRM), a process to retain customers while treating the relationships as assets.

The value of gap measurement in customer satisfaction was introduced in studies by Parasuraman, et al (1985, 1986) who called this new measurement device SERVQUAL. For the first time gap measurement was utilized to determine the importance of service quality in customer satisfaction. Reinforcing the gap studies, Carman (1990) conducted empirical studies of the elements of SERVQUAL and found some of the dimensions subject to limitations on certain specific applications.

Customer Satisfaction

Bitner (1990) took a comparative approach to studying service quality satisfaction in a study of travelers in an airport. From this study she concluded that judgments about satisfaction were merely antecedents of the elements of service quality. Cronin and Taylor's (1992) research yielded a new measurement device known as SERVPERF. Their empirical study utilized structural equation modeling, which yielded a finding that service quality should be viewed as a determinant of customer satisfaction.

After the two landmark means of measuring service quality and customer satisfaction were presented, Bitner and Hubbert (1994) observed that determining what the customer satisfaction construct is or what its meaning consists of is not the same for all individuals or companies. Also, they sought evidence that satisfaction could be established as two constructs—service encounter satisfaction and overall service satisfaction falling into the categories of satisfaction or dissatisfaction.

An attempt to interrelate customer satisfaction and service quality as one entity or process was determined to be problematic by Taylor and Baker (1994) who strongly advocated the position that customer satisfaction and service quality were separate and distinct. At the other extreme strong arguments were made to consider customer satisfaction judgments to be at the very least casual antecedents of service quality (Bitner, 1990; Parasuraman, et al, 1988). To continue the conflict, the reverse position holding that service quality judgments were casual antecedents of customer satisfaction (Anderson and Sullivan, 1993; Cronin and Taylor, 1992; Oliver, 1993; Taylor and Baker, 1994; Woodside et al, 1989).

Customer Satisfaction

Customer satisfaction is considered to be based upon value; therefore it is closely related to price, unlike service quality that is not related to price (Anderson, et al, 1994). Ennew and Binks (1996) conducted extensive research and adopted specific constructs of service quality and customer satisfaction in retail banking. Fontana (1998) noted that a change in general customer behavior dictated catering to three layers of service to provide customer satisfaction.

Based upon the existing literature, there has been very little empirical research that would link the dimensions of customer satisfaction and service quality. Oppewal and Vriens (2000) sought to bridge the lack of empirical data by establishing service quality and customer satisfaction relationships utilizing the original ten dimensions of SERVQUAL (Parasuraman, et al, 1985) as a starting point for their research. They then modified the ten dimensions using integrated conjoint experiments.

In a study (Lassar, et al, 2000) designed to evaluate SERVQUAL and Technical/Functional Quality-based approaches in one service industry, they sought to compare and contrast these two dominant concepts concerning their ability to use service quality to predict customer satisfaction. However, by their own admissions, both of these studies (Oppewal and Vriens, 2000; Lassar, et al, 2000) raised more questions than they answered.

Using a type of regression analysis, Jamal and Naser (2002) were reasonably successful in linking customer satisfaction to service quality using such variables as age, type of business, gender, etc. Likewise, Howcroft, et al (2002) found variables such as age and other demographics impact customer selection and satisfaction.

Customer Satisfaction

In spite of all the critical reviews of SERVQUAL Parasuraman, et al (1985 and 1988) with its modifications, the dimensions appear to offer the best opportunity to compare and measure customer satisfaction gaps against customer perceptions of service. Even the critics of SERVQUAL acknowledge its usefulness in providing a reasonably reliable device for customer satisfaction measurements (Cronin and Taylor, 1982; Churchill and Suprenant, 1992).

Building upon these past studies, the subject study further attempts to link customer satisfaction and service quality in the financial services area by examining the impact of customer expectations versus customer expectations on the total customer service and satisfaction issue. As a further element of the study, an investigation into bank managements' perceptions of customer expectations will be explored in a attempt to determine whether the service providers' knowledge of customer expectations will have a marked impact on the service experience in terms of both satisfaction and service.

3.2.1 Definition of Customer Satisfaction

There is no one single definition of customer satisfaction that is universally accepted as would be expected. However, to be able to adequately define customer satisfaction it is important to include customer loyalty, customer retention, and customer relationship management in any examination of a definition.

Crosby (1979) suggested to American businesses that quality was free and costs result only when expectations are unmet. Westbrook (1981) noted that overall satisfaction with a particular service provider resulted from the customer's evaluation of a total set of experiences. Peters and Waterman (1982) gave credibility to the value of focusing the company on customer wants and needs. Churchill and Suprenant (1982) held to the concept that consumer satisfaction is a direct outcome of purchase and use as a result of a buyer comparing rewards and costs of purchase to anticipated outcomes or consequences.

Churchill and Suprenant (1982) noted that early researchers did not measure customer satisfaction, Rather, the focus was on the linkage between expectations and perceived product performance. They conceptionalized that customer satisfaction was an outcome of purchase and use that resulted from a buyer's comparison of rewards and costs of that purchase in relation to anticipated consequences. In the functional sense, they compared satisfaction to an attitude that:

> "…can be assessed as the sum of the satisfactions with
> the various attributes of the product or service."
> (Churchill and Suprenant. 1982: page 493)

Dutka (1993) indicated customer satisfaction has become critical to U. S. corporations in recent years. He noted that foreign imports were less than 1 percent in the 1950s and in the 1980s exceeded 30 percent. With this substantial erosion of domestic buying patterns, it appears to be even more critical to retain the existing customers.

Cronin, et al (2000) noted that there was an on-going preoccupation by service researchers to understand all of the conceptual relationships involving service encounter constructs. The interrelation of how the relationships work, especially between satisfaction and service quality. They felt that the following three definitions best described the partial consensus among service researchers.

> "The service management literature argues that customer satisfaction is the result of a customer's perception of the value received…where value equals perceived service quality relative to price…(Hallowell, 1996, page 29)

> "The first determinant of overall customer satisfaction is perceived quality…the second determinant of overall customer satisfaction is perceived value…(Fornell, et al, 1996, page 9)

> "Customer satisfaction is recognized as being highly associated with 'value' and…is based conceptually, on the amalgamation of service quality attributes with such attributes as price…(Athanassopoulos, 2000, page 192)

Athanassopoulos (2000) in a study of Greek banks noted that customer satisfaction is closely associated with value and price, but service quality was not dependent on price, if the customer was generally satisfied. He concluded that:

> "The correlation of the antecedents of customer satisfaction is a well-established phenomenon in both theoretical and empirical terms by Parasuraman, Zeithaml, and Berry (1988) and Cronin and Taylor (1992). The finding of this research is also in line with the recent work by Taylor (1997) concerning

> the second order and interactive effects between customer satisfaction and service quality as predictive indicators of customer loyalty. " (Athanassopoulos. 2000: page 195-196)

In a case study of SERVQUAL within a major United Kingdom bank conducted over a four-year period beginning in 1993, Newman (2001) found that the separation of service quality management and marketing management caused major problems in adequately satisfying the banking customers. In the evaluation process, it was noted that:

> "Customer satisfaction is the result of the buyers' perception of service quality and satisfaction leads to retention, which leads to repeat purchase and increased scope for relationship building and word of mouth recommendation." (Newman. 2001: page 127)

Beckett, et al (2001) utilizing focus group studies of UK citizens from divergent areas of England found that a substantial number of their respondents purchasing complex investment and pension products lacked confidence in their financial institutions. As a result of this lack of confidence, they found the respondents would seek advice from someone other than their financial institution.

A study in customer relationship management (CRM) in the financial services industry (Ryals and Payne, 2001) noted that there was a need to tie information technology with marketing strategies to build long-term customer relationships. Another finding disclosed that CRM is more advanced in the financial services area than any other industry segment. A Bank Marketing

Association study noted that over 80% of all banks utilized data storing or warehousing to manage their CRM marketing activities (Gore, 1997).

There is a commonality derived from the research on customer satisfaction that would indicate a close, in fact, an almost inseparable bond to the elements of service quality. Even though they have separate and distinct definitions, research in one area impacts the other.

3.2.2 Measuring Customer Satisfaction

Early research by Olson and Dover (1979) in the areas of what effect performance, expectations, and disconfirmation had on an individual's views proved to be generally unsuccessful because they could not measure satisfaction. It was Churchill and Suprenant (1982) who noted that early researchers examined the connection between expectations and perceived product performance, which did not measure satisfaction. Further, they concluded that as research moved forward in this area, there was a shift to examination of perceived expectations, disconfirmation, and satisfaction. Another method for measuring customer satisfaction by Ross and Oliver (1984) was the use of complaint behavior, which is not a commonly accepted method.

In banking, speed of service delivery, convenient location of banking facilities, competent staff, and general friendliness were considered to be important determinants of customer satisfaction (Laroshe, et al, 1986). Buzzell and Gale (1987) noted in their findings that there was a significant relationship between service quality and performance. Carman (1990) found that there were sufficient empirical findings to support SERVQUAL dimensions in customer satisfaction, subject to small variations for different industries. Fornell (1991) concluded that customer satisfaction is based upon a group of service quality attributes.

Howcroft (1992) in his research relating to customer service in selected branches of a UK clearing bank found that he agreed with Le Blanc and Nguyen (1988) that customer satisfaction is the most important determinant of service quality. He noted that the divergent thoughts seemed to agree with the concept that customer perceptions of the level of service quality are determined by comparing expectations with actual performance, which provides further underpinnings for the measurement concepts advanced in this study.

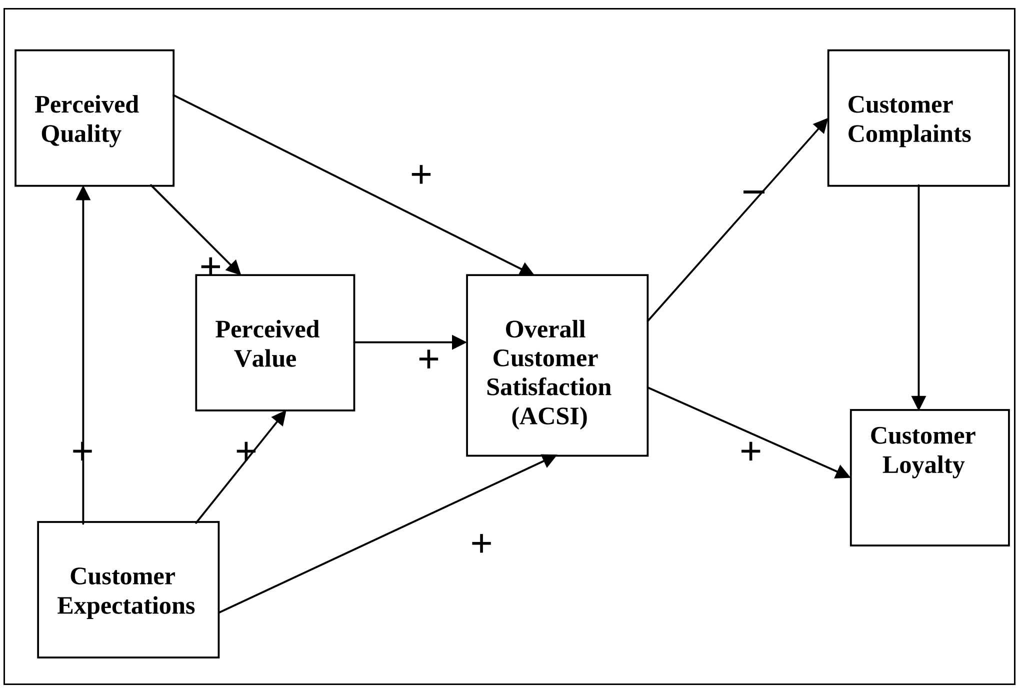
How service will be measured is certainly changing as the services provided become more complex and the nature of delivery of the financial products change. However, one element appears unlikely to change and that is the feeling of satisfaction that is brought about as customers measure their expectations against their perceptions of actual performance (Spreng, et al, 1996).

While overall satisfaction is a result of a more detailed and comprehensive evaluation of a firm and the services experienced by the customer, this study attempts to expand and advance the studies by Newman (2001) by showing that perception is a major factor in determining customer satisfaction in the area of service delivery.

3.3 Customer Loyalty's Impact Upon Customer Satisfaction

Customer satisfaction is so critical to the marketing function that there is a constant effort to determine how to advance customer satisfaction through the building of customer loyalty. One such effort to adequately measure customer satisfaction and quantify it was The American Customer Satisfaction Index (ACSI) (Ittner and Larcker, 1996). ACSI was a major step in evolving satisfaction indicators. This index provides a reasonable degree of effectiveness to insure that the customer is or is not satisfied. A graphic display of the ACSI Model is set out in Figure 3-1.

FIGURE 3.1 THE AMERICAN CUSTOMER SATISFACTION INDEX



Source: Claes Fornell, et al (1996), *The American Customer Satisfaction Index*, Page 8.

Customer Satisfaction

The ultimate goal of marketing today is to achieve the highest possible level of customer satisfaction. Even more recently, managers have been increasingly concerned with "total" satisfaction, which implies that any level of satisfaction other than "total" is substandard and not enough to build customer loyalty and retention (Barnes, 2001).

3.3.1 An Examination of Customer Loyalty

Customer loyalty is an integral part of the interrelationship. Unfortunately, it is not an easily defined, straightforward topic. Even though businesses want to gain customer loyalty, improve customer loyalty, or keep customer loyalty, it remains elusive and difficult to accomplish. One reason for this is the subjective nature of customer loyalty. An empirical study by Macintosh and Lockshin (1998) yielded an interesting conclusion in that customer loyalty relates more to interpersonal relationships rather than to a specific loyalty to a tangible product. Even with the empirical findings, it is not always feasible to put a definite measure on customer loyalty, but it is reasonable to discuss the various reasons that customers stay or are seemingly "loyal" to a particular company.

Henry (2000) identifies several reasons that customers stay with a company that includes a lack of reasonable alternatives, failure to differentiate between alternatives, seeking "safe choices", and fear of increased costs. He also noted that exclusive offerings by a competitor might cause retention.

A fitting example of this in the banking industry is the perceived "stickiness" of checking accounts. Customers normally do not have a tendency to move checking accounts unless they relocate or have a particularly bad experience with a bank mess-up. Most customers think that switching their account is too much of a hassle and that checking accounts are more or less the same across the board. This example does not portray that these customers are "loyal" to their bank; rather they chose to stay merely because they think it is too hard to move (Henry, 2000).

The factors listed above are commonly referred to as "false" loyalty, customers staying put for reasons other than being truly loyal. But what is true loyalty? Linda Murray, project manager at TelensensKSCL, wrote,

> "Loyalty stems from either an emotional or physical bond" (Murray. 2002: page 1).

Some customers may remain with a bank for many years; that bank may assume that the customers are completely loyal to their establishment; and in reality, the consumers are spreading their business around to several banks for various services. In this case the customer is partially loyal but not totally loyal. True loyalty does encompass an emotional aspect. It has been shown that loyalty cannot be measured with mere behavioral aspects. An emotional connection to an establishment draws the customers to feel good about their choices, to develop a sense of ownership and duty toward the establishment, and even to begin sharing their experience with others. Customers who develop this type of bond or relationship with a particular company will normally begin to exhibit certain recognizable signs. These factors also contribute to a customer's profit-generating potential.

3.3.2 Customer Loyalty is not Customer Retention

It should be apparent that a truly loyal customer is a customer that the company has "retained." While customer retention is not interchangeable with customer loyalty, they can be very closely related. We have seen that customers with false loyalty, those who stay with a company because they have no other viable choice or because they perceive that it is just too hard to change, do stay with a company and are in a sense "retained" by that company, but normally it is only until they do happen upon a better option. In this case the seemingly loyal customer has defected and has not been retained for the long run. A truly loyal customer, one who stays with a company of its own free will, increases a company's customer retention.

3.3.3 Banking's Loyalty Problem

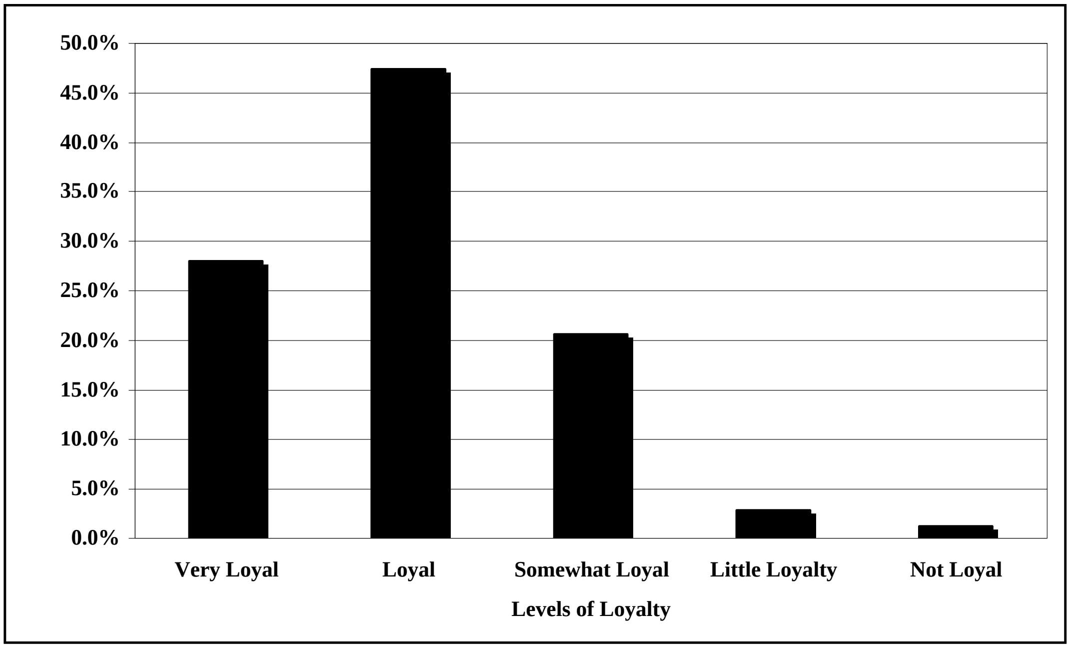
In October 1995, the *American Banker* commissioned a survey by a leading consumer behavior research firm, American's Research Group (Milligan, 1995). The survey was based upon telephone calls to 1,000 people in five U. S. cities: Chicago, Dallas, Miami, New York, and Seattle to determine bank customer loyalty. The survey covered a wide-based geographical area and representative sample of age and sex within those areas including 572 women and 428 men with 67% of those surveyed being from 35 to 54 years of age.

The survey examined how customers interact with their banks and look at their opinions toward their banks. Milligan (1995) noted:

> "Despite strong evidence to the contrary—like an enormous loss of market share as many of their biggest depositors

have fled to the stock market in recent years—it seems that customer loyalty has been taken for granted. It shouldn't be." (Milligan. 1995: page 39)

Chart 3.1 Loyalty to Financial Institution



Source: Milligan, John W. (1995) *American Banker*, Page 39

From Chart 3.1 some very interesting facts about customer loyalty can be observed. On the surface, 75.4 percent indicated that they were very loyal or loyal, while the remaining 24.6 percent fell into the somewhat loyal to not loyal categories. These numbers could give bankers an unusually high comfort level with customer loyalty, but as stated in the citation above, care must be taken not to take the customer for granted. It was noted that a similar survey conducted by the same research group in the 1980s noted that the very loyal category was 45 percent, which should be cause for concern to today's bankers. Accordingly:

"This signals…that bank customer loyalty has been eroding in recent years. And he argues that it pinpoints the industry's

> vulnerability to non-bank competitors and ARG's own research, as well as other studies, show that up to one-third of consumers in the less committed "loyal" category can be stolen away by another institution through an aggressive marketing campaign." (Milligan. 1995: page 40)

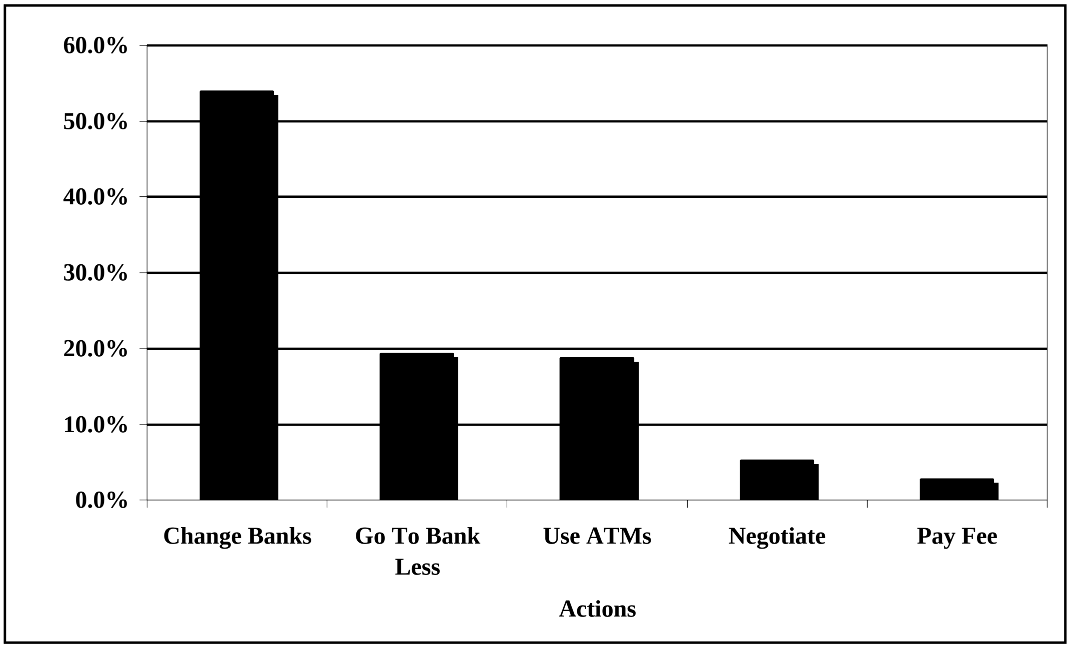
Most of the survey's respondents, 83 percent, indicated that their primary institution was a bank, while 9.5 percent utilized a credit union, 5.6 percent used a thrift, 1.3 percent a brokerage firm, and a 0.2 percent relied on a non-bank money market fund. This is a further indicator that most of those surveyed utilized a bank rather than some other form of financial institution.

Bank mergers also seemed to have an impact on loyalty. Some of the participants indicated they changed their banking relationships after a merger when the bank imposed higher fees, made substantial personnel changes, or got impersonal with their service.

The customers surveyed have stayed reasonably loyal when fees have been raised as indicated by the fact that 41.8% have been hit with fee increases. While this might give some bankers comfort, there is a limit to what customers will tolerate and still remain loyal.

Another highly charged issue in the survey was the issue of being charged a $3 teller fee to talk in person with a teller. From Chart 3.2, you will note that

Chart 3.2 If Charged a $3.00 Teller Fee, What Would You Do?



Source: Milligan, John W. (1995) *American Banker*, Page 42.

53.9% indicated that they would change banks if the $3 charge were imposed. Another 19.3%indicated that they would go to the bank less often, 18.7% said that they would use ATMs more, 5.3% said that they would try to negotiate the fee away, and the 2.8% remaining said that they would pay the fee. Milligan (1995) noted that it should be obvious that customer loyalty can turn on some very small dollar amounts.

3.4 Customer Retention As A Function of Customer Satisfaction

A previous section discussed how customer satisfaction is predominantly based on the customers' expectations, which seem to be constantly on the rise. It examined the different levels of customer satisfaction, and brought out the fact that customer satisfaction and revenue are directly related. The concepts of customer loyalty and customer retention are important, and are closely related. Some specific elements include the difference between fake and true customer loyalty and the use of customer defection analysis as a way to improve customer loyalty and retention.

Customer retention, along with customer relationship management and customer loyalty, begins with the first encounter a company has with a customer. There are four key factors to customer retention: 1) uniqueness or competitive advantages, 2) competitiveness, 3) quantity of contact: it is important to keep in touch with the customers, and 4) depth of relationship: as we have seen the stronger the relationship the higher the retention rate (Bernstel 2002).
These factors echo the previously discussed factors for gaining or improving customer satisfaction and customer loyalty. This provides yet another building block for the task of putting together the interrelationship between retention, loyalty, and satisfaction.

3.4.1 Customer Defections – A Tool for Success

True customer loyalty is, as previously discussed, a subjective issue and is not prone to easy measurement. Although it can be measured by inference, it can really only truly be measured after the fact (Brass, 2002). After the fact measurement may seem too late to be of benefit, but many companies are learning a great deal about customer retention from their customer defections. General knowledge will tell you that losing your customers is a bad thing. Natural instinct will tell you that there is nothing you can really do about losing the customers because it is already done, and many companies will not even look into why they left. These people are missing out on one of the most useful measures in business. Customer defections are the most apparent sign that the customers see a decrease in the company's value.

Reichheld (1996) argues that the first step in customer defection analysis is defining the company's core customers. It has been previously indicated that all customers are not profitable for a company to keep, so the company should narrow down its analysis to its target customer base. The next step in customer defection analysis is performing the "root-cause" analysis. This is more difficult for service industries such as banking where there are more variables than in a manufacturing setting. The final step is to take the information that has been gathered and to turn it into an action plan for success.

3.4.2 Customer Expectations

As technological advances are made and service capabilities become greater, the customer's expectations of future service also increase. Companies such as Southwest Airlines, Nordstrom, MBNA of America, and Toys "R" Us overwhelmed the competition and returned excellent profits by providing outstanding service, which was further evidenced by the following:

> "These companies' core competencies include: identifying what their customers expect, focusing on the ten service quality determinants, constantly improving the process as well as the outcome of service." (Allred and Addams, 2000: page 205)

Customer Satisfaction

The entire process involves a purposed effort to provide an outcome of service experience that exceeds customer expectations not just to arrive at a predetermined benchmark that the organizations believes will satisfy the customer. Gun Dukes, group director in the research department of J.D. Power & Associates, said this of customer expectation:

> "What makes customer satisfaction so difficult to achieve is that you constantly raise the bar and extend the finish line. You never stop. As your customers get better treatment, they demand better treatment." (Stewart. 1995: page 4).

ACSI (Ittner and Larcker, 1996) noted that the three prime components of customer satisfaction revolved around three specific antecedents—perceived quality, perceived value, and customer expectations. Should any of the components not be up to the level required by the customer, there would be a lack of customer satisfaction.

Customers are continuously evaluating the service they receive, and they are constantly updating their perceptions of their service providers, namely their current bank of choice. This being the case, banks should treat every encounter with their customers as a way to improve or sustain customer satisfaction (Brandi, 1998). Most interactions with customers are routine, not warranting a second thought. It is for this reason that customer expectations must be exceeded in order for customers to feel completely satisfied to the point that they are compelled to tell others about their good experience.

Jan Carlzon, chief executive of SAS airlines, refers to all encounters with customers as "Moments of Truth." And states the following:

Customer Satisfaction

> "The Moment of Truth can either be good or bad.
> Exceptional Moments of Truth are Moments of Magic;
> these moments entail surpassing the customers' expectations
> to create an extraordinary experience (Brandi. 1998: page 3).

Extraordinary experiences lead to praise reports from customers to their acquaintances and increased customer satisfaction.

The question remains, how does a company go about forming extraordinary experiences for their customers? It must set itself apart from every other company through maximizing the competitive advantages and adding value at every possible opportunity. Distinguishing the company from the crowd and creating value for the customers gives them a reason to come back (Barnes, 2001). This study will utilize the studies in expectations by such researchers as Allred and Addams (2000) and expand them by comparing these expectations to customer perceptions. By examining expectations and comparing them to perceptions, it will give firms a more predictable means of knowing what needs to be delivered in terms of quality of service to retain customers.

3.4.3 Predicting Levels of Customer Retention

The concept that businesses will benefit by keeping their customers satisfied is universally accepted; however, to what extent customers are satisfied is a different issue altogether. Traditionally, it is thought that satisfaction and loyalty are directly related or share a linear relationship. This theory, however, has been disproved by several research studies. Linking people's intentions to a resultant behavior is difficult at best (Fishbein and Ajzen, 1975). Predicting intentions through buying habits proved to be a better measurement of intended behavior than mere attitudes, but it was not an absolute measuring device. Juster (1966) and Foxall (1982) noted that verbal intentions disguised probability statements and suggested that a better prediction method might be collecting the probability themselves. Juster (1966) developed an eleven-point scale to estimate the average probability that a group will do at some future time. After more than a decade, the scale has proven to be highly reliable (Brennan, et al, 1995; Paracka1 and Brennan, 1998; and Danenberg and Sharp, 1999).

A bank must strive for maximum retention, but to presuppose that it is doing a poor job if it does not retain 100 percent of its customers is a myth. Factors within its control such as price and factors beyond the bank's control such as a customer's desire for a new product will play a major role in determining retention (Blattberg, et al, 2002.)

Another approach holds that the different levels of customer satisfaction result in very different levels of customer loyalty. Customer satisfaction can range from dissatisfied to neutral to somewhat satisfied to totally satisfied. A dissatisfied customer is one who is most likely having problems with the core product or service. These customers probably feel that the product or service they receive is lacking the essentials that they require from every company in the industry (Jones and Sasser, 1995). For instance, a customer who banks at XYZ Bank holds a checking account with defined interest rates and additional transaction or service charges may become dissatisfied with this service as competition increases and competitors introduce similar accounts with better rates, fewer fees, and increased benefits such as internet banking and debit cards.

This point goes to show that banks should continually evaluate their core products and services to ensure that what they have to offer holds up with what the customer expects and desires.

Neutral customers exhibit basic happiness with the standard product or service, but are generally unhappy with the support service and would like to have a consistent set of support services available. The neutral and merely satisfied customers are somewhere in the gray area, where they are currently satisfied, but if something goes wrong they slip down into the ranks of the dissatisfied. To combat this, companies should have in place a quality recovery response procedure. Mishaps are bound to happen, but it is how the company reacts that determines whether or not the customer leaves satisfied. A bad experience can turn into positive experience if the right recovery strategy is executed.

Completely satisfied customers are those that regard the company as having exceeded their expectations in understanding and dealing with their preferences, values, needs, and problems. Several steps a company can take in order to assist in keeping customers totally satisfied is to actively listen to their customers and be proactive in deciphering what they say (Jones and Sasser, 1995).

The following tables illustrate the percentages of various levels of customer satisfaction in the Telecom, Banking, and Grocery industries and how they affect various elements of business. Table 3.1 shows the percentage of customers falling into one of three levels of customer satisfaction.

The "Quite Satisfied" category is the largest in each industry. This means that a large portion of customers is in the gray area where the customer could go either way. Special attention should be paid to these customers in order for them to move up to the "Completely Satisfied" category.

Table 3.1 The Impact of Total Satisfaction

Group #	Description	Telecom	Banking	Grocery
Group #1	"Generally Satisfied or Less" (Rated their satisfaction as 1 to 7)	22.9%	28.0%	34.2%
Group #2	"Quite Satisfied" (Rated their satisfaction as 8 or 9)	42.5%	43.0%	43.6%
Group #3	"Completely Satisfied" (Rated their satisfaction as 10)	34.6%	29.0%	22.3%

Source: Barnes, (2001), *Secrets of Customer Relationship Management*, Page 78.

Table 3.2 evaluates how the groups of customers represented in Table 3,1 influence relationship and loyalty variables. In each category represented in Table 3.2, there is a direct relationship between customer satisfaction and the relationship variable; there were no deviations from the fact that as customer satisfaction went up the relationship closeness and strength increases as well as the likelihood that the customer will remain with and be promoters for their current company. These findings reinforce the data presented to this point that customer satisfaction relates closely with customer loyalty.

Previously, it was noted that poor service or product quality was the main cause of dissatisfied customers. Another reason that a company may have dissatisfied customers is that the company is attracting the wrong type of customer. No company can be all things to all customers, so it is reasonable to deduce that every company has a target group of customers that it may serve well (Jones and Sasser, 1995).

Table 3.2 Relationship and Loyalty Variables

Relationships	**Telecom**	**Banking**	**Grocery**
Relationship Closeness			
Group #1	4.4	6.0	4.7
Group #2	5.8	6.7	6.7
Group #3	6.8	8.0	7.9
Relationship Strength			
Group #1	8.2	8.6	7.5
Group #2	9.4	9.1	8.9
Group #3	9.6	9.5	9.3
Share of Business			
Group #1	78.4%	89.9%	76.0%
Group #2	92.4%	92.1%	79.3%
Group #3	91.3%	94.6%	85.2%
Very Likely to Be with Main Telco/Bank/ Grocery Store Two Years from Now			
Group #1	71.0%	78.7%	49.0%
Group #2	87.3%	89.0%	83.5%
Group #3	87.8%	94.5%	86.0%
Very Likely to Recommend Main Telco/Bank/ Grocery Store to Others			
Group #1	31.5%	50.0%	30.4%
Group #2	75.3%	69.0%	73.7%
Group #3	89.9%	91.9%	92.1%

Source: Barnes, (2001), *Secrets of Customer Relationship Management*, Page 80.

3.4.4 Customer Satisfaction and Profitability

It has been established that there are different levels of customer satisfaction. Now it is time to investigate how these levels may affect a company's bottom-line. The fact is that all customers are not profitable. A study by Robert Brass found that a somewhat satisfied customer would generate only 38% of the revenue of a totally satisfied customer; a somewhat dissatisfied customer produces only 7% of revenue, while a totally dissatisfied customer costs 180% of the revenue of a totally satisfied customer (Brass, 2002).

3.5 Customer Relationship Management

No other marketing approach has had a greater impact on the financial services industry than customer relationship management (CRM) as was noted in a study by Ryals and Payne (2001). This unique marketing approach combines the application of information technology with marketing strategies to produce information that allows the organization to better retain customers and increase profitability. Information technology has been the single greatest contributor to the collection and analysis of data that can be utilized to evaluate customers and interact with them in the delivery of service on a relationship basis as opposed to an “a la carte” or individual basis (Sawhney, et al, 2004).

Alluding to the value of relationships in the financial services industry, Berry (1999) noted that in banks where a customer has three or more relationships or accounts, the likelihood of retention of the customer’s business is far greater than in those cases where the customer has only one relationship or account because the customer has build a relationship with the bank. He stated:

> “Companies can expand market share three ways: attracting new customers, increasing business with existing customers, and retaining current customers. Building relationships with existing customers directly addresses two of the three possibilities and indirectly address the other.” (Berry, 1999; page 147)

3.5.1 Definition of Customer Relationship Management

As the field of customer relationship management has evolved many scholars in the field are inclined to believe that CRM represents a total shift in the approach to marketing and how to strategically deal with the customers (Gronroos, 1996; Parvatiyar and Sheth, 1997; Sheth, 2000). There have been a number of attempts to precisely define CRM, but as in a number of research fields there has not been one single definition that has been accepted. Reinartz, et al (2004) noted that the reason for difficulty in defining CRM is due to the level that it is applied, and regardless of the level selected the following levels apply as set out in their definition is as follows:

> "A challenge of defining CRM is that any definition is contingent on the level at which CRM is practiced in an organization or, for that matter, what the researcher or manager believes about the correct level of CRM. There are three different possible levels: (1) functional, (2) customer facing, and (3) companywide." (Reinartz, et al, 2004, page 294)

Reinartz, et al (2004) focused on finding levels of practice of CRM while Hobby (1999) approached CRM from a more global approach as noted in the following definition:

> "A management approach that enables organizations to identify, attract, and increase retention of profitable customers by managing relationships with them."

(Hobby, 1999; page 28)

The definition was extended by Peppers and Rogers (2004) to include the data-driven aspect of marketing and spoke of CRM as a movement and a way to control business as follows:

> "Customer Relationship Management (CRM) has been called an inevitable—literally relentless—movement because it represents the way customers want to be served and offers a more efficient way of conducting business." (Peppers and Rogers, 2004; page 6)

CRM was put into focus as a technology driven movement by Peppers and Rogers (2004) that allows the customer and the financial institution to function more efficiently as they conduct business. Further, the use of technology allows the organization to treat all of the customers' business as a relationship rather than individual pieces of business.

3.5.2 CRM and Customer Satisfaction

Coordinating the customer relationship makes the organization seamless to the customer, and therefore provides a data gathering, customer servicing point of contact. Since the retention of customers is a function of customer satisfaction, the manner in which the organization manages the relationship with each of its customers. With the CRM approach, marketing is "tailored" to meet the customer's needs rather than a "universe" approach, and as a result, CRM is utilized to develop the information that is available through technology and then use it to better serve the customer and benefit the organization at the same time (Ryals, et al, 2000).

The advent of information technology has changed the way marketing strategies are developed in that so much data can be stored electronically and retrieved, cleaned, and compared to develop the best marketing strategies. Being able to gather more and more information about customers with high- speed databases allows organizations to be able to predict what it will take to satisfy its customers (Berry and Linoff, 1997; Ryals and Payne, 2001).

Reinartz, et al (2004) noted that there should be a balance in all areas of CRM throughout the entire relationship. If the balance exists, then the customer will be satisfied and the organization will have better performance. Care must be taken to ensure that your best customers are not ignored, and CRM has been found to be one of the best methods to provide consistency in evaluating data and developing strategies.

Using the CRM process to measure marketing performance in the area of customer satisfaction and its impact on the quality of service delivery advanced by Reinartz, et al (2004) provides an excellent point from which to attempt to advance the subject study by utilizing CRM to examine perceptions versus expectations and the benefits to the customer and the bank.

3.6 Chapter Summary

This chapter has demonstrated that there is an interrelationship between customer loyalty, customer retention, and customer relationship management in determining customer satisfaction.

Customer Satisfaction

Customer satisfaction was illustrated in this chapter to be heavily dependent upon customer expectations. These expectations rise as customers expect more from the companies that handle their banking relationships. Therefore, banks should treat every customer encounter as a way to improve or sustain customer satisfaction. While there are those researchers who believe that customer satisfaction and customer loyalty share a simple linear relationship, there is more evidence that different levels of customer satisfaction result in very different levels of customer loyalty.

The chapter has shown that customer loyalty can be classified as either false loyalty or true loyalty. A false sense of customer loyalty is exhibited when customers have no reasonable alternative, do not differentiate a difference between alternatives , avoid risk by choosing the "safe choice", or they perceive that switching costs are greater than the benefit of selecting an alternative.

Loyalty cannot be measured through mere behavioral aspects. An emotional connection to an establishment draws the customer to feel good about their choices, to develop a sense of ownership and duty toward the establishment, and even to begin sharing their good experience with others. This bond will exhibit itself through the customer spending more, getting more comfortable with the organization, and becoming less price sensitive.

Customer defection analysis was demonstrated in this chapter to be a method used by some companies to analyze their firm's customer loyalty and satisfaction rates. By looking for the origin of the problem, companies are able to identify what needs correcting in order that it will no longer be a problem in the future, and in fact, may even win back some of their lost customers. This analysis entails involving management and staff in examining defection causes.

Customer relationship management (CRM) is one of the newer processes that allows the use of information technology and marketing strategies to develop opportunities to better serve and satisfy the customer and benefit the organization in developing its strategies.

Customer loyalty, customer retention, and customer relationship management have an impact on service quality. This chapter lays the foundation for the next chapter by raising the issue of how customer satisfaction and service quality interrelate to quality service delivery.

Chapter Four

The Development of Service Quality

4.1 Introduction

The goal of this chapter is to provide a review of the principal literature relating to this study, which is service quality. In addition, it will evaluate the existing literature and establish the identity of the gaps in the literature, which will provide the framework on which this research is based.

As part of introducing the study the literature on services marketing will be examined from a purely historical perspective to determine its impact on the field of service quality. Then, a brief review of the relationship between customer satisfaction and service quality precedes the literature review defining service quality, and measuring service quality.

The literature review points to SERVQUAL developed by Parasuraman, et al (1988) as the optimum measuring device that can be modified to accomplish predicting customer perceptions against expectations and the casting of those perceptions and expectations against the service provider perceptions of what it will require to satisfy the customers' service needs. Based upon SERVQUAL as a measurement device, the chapter looks at the dimensions in measuring service quality, the SERVQUAL model, the use of the SERVQUAL model to evaluate service quality, and the validity of SERVQUAL in the measurement of service quality.

The study of the literature will then focus on the importance of service quality measurement in banks, service as an element of bank selection, service quality impact on bank profitability, and the validity of SERVQUAL in banking applications.

The Development of Service Quality

There is limited literature in predicting bank customer perceptions against expectations and the casting of those perceptions and expectations against the bank service provider perceptions of what it will require to satisfy the customers' service needs. The available literature addresses service quality but fails to deal with the aforementioned perceptions and expectations. This study will utilize a survey instrument in primary research based upon a modified SERVQUAL instrument to obtain results that will be utilized in filling gaps in knowledge about service quality.

The chapter concludes by focusing on the conceptual framework of the study and a summary of the research issues.

4.1.1 Service Marketing

Service marketing was the precursor leading to the study of service quality. It was beginning to be recognized as an industry function in the early to mid 1970s. Empirical research was limited in the early days as marketing struggled with the differences between this new service sector and the conventional marketing methods for the marketing of produced goods. Pioneer research in this area (George and Barksdale, 1974) identified several distinct differences between the marketing of "service" firms and "manufacturing" firms. Their research found an unusual concept in the service firms in that the marketing effort was not confined to a formal marketing department, but was shared across organizational lines. The manufacturing firm by contrast operated with a more clearly delineated marketing department.

It was Shostack's (1977) research that brought to the fore the distinct nature of services marketing. She noted that services were intangible, rendered, experienced, and unable to be stored. Consequently, her conclusion was that services should be marketed differently from tangible products. It was her early work that gave equal weight to the components of "service" as it did to "product." Her research concluded that service marketing strategies should deal with specific issues related to distinct elements within each product. She also concluded that changes in any single element could impact other elements within the function, and as such, services marketing should consider products more holistically, meaning to look at each item on its merits alone.

Uhl and Upah's (1983) research built on Shostack's (1977) work, but set forth the concept that services marketing was significantly different from product marketing. They found that services are intangible, incapable of being stored, incapable of being transported, and are for use and not ownership. For example, they noted that a bank teller's services could not be stored, and if those services went unused, they would be lost.

Lovelock (1983) took the intangible service marketing function and broke it down to the specific service function, and then established service classifications that emphasized the fact that service oriented organizations could be quite different from each other. He created five four-way classification schemes that considered three service aspects: (1) the nature of the service act involving people or things whether tangible or intangible actions; (2) the nature of service delivery which comprised formal relationships or non-formal relationships with customers; and (3) the nature of customization involving high or low service provider judgments regarding customer needs or customization requirements.

The Development of Service Quality

The limited research that followed (Reukert, et al, 1985; Walker and Reukert, 1987) viewed marketing management as a function or a task, and did not embrace the services marketing approach across the organization. However, subsequent research (Parasuraman and Deshpande, 1984; Deshpande and Webster, 1989) provided evidence that suggested organizational culture has a significant influence on organizational behavior.

Enis and Roering (1984) were unconvinced that there is a distinction between service marketing and manufacturing marketing. It was their conclusion that the strategies used for all product is strictly a "bundle of benefits" regardless of whether they are tangible or intangible.

The principal study by Zeithaml, et al (1985) fostered a direct relationship between customer satisfaction and service quality and broadened the unique characteristics of service products. They explained that service in its production sense and consumption occur simultaneously. Production and consumption of service products cannot exist in isolation, requiring them to be simultaneously produced and consumed. Additionally, they suggest that service production and consumption is by its own nature heterogeneous. Their research was significant in that it highlighted the differences between manufactured products and service products, and it introduced the interrelationships between customer service and customer satisfaction through the measurement of gaps.

4.1.2 Relationship Between Customer Satisfaction and Service Quality

In the previous chapter, customer satisfaction was discussed and defined. In this study, it is important to establish the relationship between customer satisfaction and service quality. This section will establish the existing relationship. Only within the last few years has there been much research conducted in the area of determining whether customer satisfaction influences behavioral tendencies more than service quality does or the opposite prevails. Perhaps, the issue revolves around the ongoing debate as to whether satisfaction precedes service quality or in the alternative, does service quality precede satisfaction?

Customers have a difficult time in attempting to determine service quality based upon objectivity and as a result need some structured effort on the part of the service provider to plan the service function (Shostack, 1985). Boulding, et al (1993) noted that service quality and customer satisfaction were treated as one and the same by the business press. They indicated that this should be a dynamic process model to examine the subject from expectations to behavioral intentions.

The subject took another turn when there was a substantial amount of posturing in the literature as to whether both constructs (satisfaction/dissatisfaction and service quality) are truly attitudes. Bitner (1990) viewed satisfaction/dissatisfaction as an episodic, transaction-specific measure, and this was subsequently the conclusion of Clow and Beisel (1995.) Still not convinced, Bitner and Hubbert (1994) subsequently raised the question whether or not service quality and customer satisfaction is distinguishable from the customer's perspective. However, studies by Cronin and Taylor (1992) as well as research by Oliva, et al (1992) treat satisfaction/dissatisfaction as a cumulative rather than a discrete measure.

It became obvious that satisfaction/dissatisfaction had to be separated into two distinct types based on a given service encounter or a total service experience.

They described service quality as “similar in many ways to an attitude” developed over all encounters with the service providing firm (Parasuraman, et al, 1988). Cronin and Taylor (1992) found that there is a major problem when service quality is not termed an attitude. They saw a significant problem when the disconfirmation paradigm is used to measure perceptions in service quality, and it has also been used to distinguish customer satisfaction from service quality. This was identified as an inconsistent approach with the differentiation noted between these constructs in the satisfaction and attitude literature.

A set of definitions to clarify the different types of evaluation methods was proposed by Bitner and Hubbert (1994.) They noted and established conceptual links between satisfaction in single service encounter, satisfaction with the entire service experience, and service quality. It was determined using their concept that consistently good service would mitigate one single episode of poor service, and as a result would not significantly impact overall satisfaction. Conversely, negative information from some credible source may cause the customer to evaluate service quality less favorably, even though the past experiences have been very satisfying.

Bolton and Drew (1994) in their research found there is a difference between a single encounter and the total service experience and in that regard stated:

> “In a dynamic framework, customer satisfaction with a specific service encounter depends on pre-existing or contemporaneous attitudes about service quality and customer post-usage attitudes depend on satisfaction.” (Bolton and Drew. 1994: page 176.)

From their conclusions, it is implied that service quality is an input and customer satisfaction is an output. However, taking their statement and dissecting it one would have to conclude that Bolton and Drew (1994) view this dynamic framework from the context of service quality establishing the perceptions necessary for the customer to receive satisfaction from a specific service encounter as opposed to pure service causing the customer to obtain satisfaction.

While the issue is sometimes clouded, it is reasonable to conclude that there is a consensus among the various researchers that while service quality and customer satisfaction are two different constructs they can still have common indicators. Likewise, there is agreement in the research literature that both service quality and customer satisfaction have an influence on customer loyalty.

4.2 Defining Service Quality

Customers over the years have felt some level of comfort by an adequate amount of attention. However the study of service quality did not come into its own as an area of marketing importance until research in the early 1980s established that attitude was a significant part of service quality. Table 4.1 below gives a general chronology of service quality, providing a list of the researchers and the research issues they raised by time period. The more important studies are detailed following the table.

The earliest concern for what has become to be known as service quality appeared in 1976. Anderson, et al (1976) recognized importance of selection as a priority for obtaining and retaining customers. Other than being a trail blazer, this research did not have a significant impact on service quality. Marketing researchers did not share their need for substantial research of the quality issue until the early 1980s.

Churchill and Suprenant (1982) were among the earliest to hold the view later shared by others that service quality was an attitude. They were the first researchers to see the significance of attitude as a principal factor leading to superior service quality. One year after this significant research, Lewis and Booms (1983) concluded that satisfaction was similar to attitude, and consequently they

Table 4.1 Chronology of Service Quality Research

YEAR	RESEARCHERS	RESEARCH ISSUE
1976	Anderson, et al	Recognized importance of selection as priority for obtaining and retaining customers.
1982	Churchill and Suprenant	Service satisfaction is similar to attitude.
1982	Gronroos	Significance of processes and outcomes in defining service quality. Alluded to satisfaction as being similar to attitude.
1983	Lewis and Booms	Also noted significance of processes and outcomes in defining service quality. Difference in service quality and attitude is seen as general, comprehensive appraisal of some specific product or service.
1985	Holbrook and Corfman	Defined perceived quality as a global value judgment.
1985	Maynes	Viewed service quality as the extent to which a product offers the characteristics that individual desires.
1985	Parasuraman, et al	Established ten service quality determinates known as SERVQUAL (tangibles, reliability, responsiveness, communication, credibility, security, competence, courtesy, understanding/knowing the customer, and access.)
1988	Parasuraman, et al	After substantial factor analysis and testing, reduced the 10 service quality determinates in SERVQUAL to 5 (tangibles, responsiveness, reliability, assurance, and empathy.

Table 4.1 Chronology of Service Quality Research (Continued)		
YEAR	**RESEARCHERS**	**RESEARCH ISSUE**
1988	Zeithaml, et al	Noted that firms not only have a difficult time delivering a consistent level of quality service, but had difficulty understanding what service quality really entails. Perceived service quality as an attitude. Found through focus groups that good service quality as meeting customer expectations.
1989	Babakus and Mangold	Developed serious reservations about SERVQUAL's scales: reliability and discriminant validity.
1990	Bitner	Noted research yielded service quality as being similar to attitude.
1992	Cronin and Taylor	Found that perceptions of service quality more closely approach customer evaluations of services provided.
1992	Howcroft	Noted customer preferences of service quality based upon comparison between expectations and actual service performance
1993	Teas	Found interpretation of SERVQUAL expectations was flawed.
1993	Brown, et al	Questioned whether five key dimensions capture all possible determinants of service quality.
1994	Parasuraman, et al	Disagreed with Brown, et al. Research supports disconfirmation as valid since it allows service providers to establish gaps in provided service.
1994	Cronin, Jr. and Taylor	Found fault with SERVQUAL and developed SERVPERF based upon consumer satisfaction exerts stronger influence on purchase intentions that does service quality.
1994 1996 1996	Taylor and Baker Dabholkar, et al Spreng and Mackoy	All used multi-item measures to ascertain overall service quality with factors as antecedents.
1996	Buttle	Questioned face validity and construct validity of SERVQUAL.
2000	Dabholkar, et al	Found perceptions and measured disconfirmation are more advantageous than computed disconfirmation.

Table 4.1 Chronology of Service Quality Research (Continued)		
YEAR	**RESEARCHERS**	**RESEARCH ISSUE**
2000	Bahia and Nantel	Devised measurement system modifying SERVQUAL to examine specific service context on a 6-dimension scale called BSQ. Researchers admitted BSQ had limitations.
2000	Beckett, et al	Developed consumer behavior matrix to determine impact of electronic-based delivery systems on service/service quality.
2000	Oppewal and Vriens	Used integrated conjoint experiments to measure perceived level of service quality to avoid measurement pitfalls of SERVQUAL.
2001	Newman	Acknowledged acceptance of SERVQUAL, but questioned composition of sample and insensitivity to customer.

noted the significance of processes and outcomes in defining service quality. In addition, they did not directly state, rather they alluded to satisfaction as being similar to attitude. The difference between service quality and attitude is that service quality is seen as a general, comprehensive appraisal of some product or service. By contrast it was noted by Gronroos (1982b) that service marketing had followed two distinctly different paths. In his view based on empirically reliable research, service when taken alone is indeed physically intangible. It does not matter if it is a bank service or a restaurant service—service occurs when someone does something for the customer in either case. He noted:

> "This holds even for situations where there are no human representatives of the firm involved; then the firm uses physical or technical resources and the co-operation of the customer instead, in order to be able to do something for its customers. This activity—for example, a bank

> service, a restaurant service, or an airline trip—is produced, at least partly, often to a great extent, in the presence of the consumer, with his co-operation, and moreover, while he simultaneously consumes the service." (Gronroos .1982b: page 31.)

Gronroos (1982b) concluded that the act of something being done for the customer was the significant element in satisfying the customer, and this act did not have to involve a person performing the act rather it was simply a matter of the "firm" relying upon physical or technical resources doing something for the customer with the customer cooperating by consuming the "service". As noted from his research, customer awareness of something being done in their behalf played a significant role in the degree of satisfaction.

Holbrook and Corfman (1985) expanded on the concept of an act being performed and defined perceived quality as a global value judgment. They indicated that quality does by its nature seem to express general approval. Therefore, it is indicated that "quality" or "high in quality" means that something is "good." They stated that the use of the terms promotionally is extremely imprecise. To define quality, they saw quality as fitting into three dimensions as stated below:

> "The first dimension distinguishes between definitions that regard quality as something present implicitly in an object as opposed to some explicit aspect or function thereof. A second dimension contrasts more mechanicalistic definitions of quality with those more humanistic in nature. A third

> dimension distinguishes conceptual definitions of quality from those relatively more operational in nature." (Holbrook and Corfman. 1985: pages 32-33).

With the three dimensions, they tried to make the element of quality much more precise by definition. This approach of definitions was in conflict with their idea of perceived quality as a global value judgment. Their approach virtually ignored the customer and moved away from the early research that put service quality in the marketing mainstream.

Maynes (1985) took a different approach from Holbrook and Corfman (1985) who took the customer out of the service equation. He brought service quality back to the earliest held views that service quality was the extent to which a product offers the characteristics that the individual desires. He differed from the earlier views in that he saw quality as a normative concept that could equip the consumer function effectively in the marketplace. Additionally, he felt that quality could best be measured and defined using quality as a weighted average of characteristics. He defended his measurement and definition through the following statement:

> "Finally, it is worth noting that the quality scoring systems utilized by Consumers Union and all its counterparts conform in essence, though not to form, to the model proposed here." (Maynes. 1985: page 197.)

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This added element of mathematical measurement of quality by Maynes (1985) was the earliest attempt to quantify service quality by placing a number on the level of satisfaction. While this was a significant attempt to use weighted averages to arrive at a customer's level of satisfaction, it did not answer what the characteristics should be. It would appear that the research raised as many questions as it answered.

Maynes' attempt to quantify service quality was the beginning of the development of some of the most significant measurement techniques. Parasuraman, et al (1985, 1988) sought to improve the previously developed methods by developing a set of firm characteristics that could be measured by providing the first complete set of ten service quality determinants: tangibles, reliability, responsiveness, communication, credibility, security, competence, courtesy, understanding/knowing the customer, and access, which are defined in Table 4.2. After substantial factor analysis and testing, Parasuraman, et al (1988) reduced the categories to the following five: tangibles, responsiveness, reliability, assurance, and empathy.

Zeithaml, et al (1988) noted that firms not only have a difficult time delivering a consistent level of quality service even though it improves the profit level for firms providing services, but also understanding specifically what service quality really entails. Bitner (1990) held the same view as Zeithaml (1988) who perceived service quality was similar to attitude. Zeithaml, et al (1988) in their book dealing with service quality noted that customer focus groups universally found good service quality as meeting the expectations of the customer. As is noted in the literature, there is no one definition of service quality that can be accepted by marketing scholars, however, there is one, which presents the least amount of controversy:

> "Service quality as perceived by the customer is the degree and direction of discrepancy between customer service perceptions and expectations." (Parasuraman, et al. 1985: page 41.)

This definition provided for the first time recognition that perception by the customer was as much a factor in service quality as the actual service delivered. For example, the service delivered was the best that could be offered, but the perception by the customer was a lack of satisfaction. Hence, the service quality did not meet expectations.

The common element that can be derived from the numerous researchers is that various methodologies exist which allows service quality to be measured. Additionally, it can be measured from several perspectives, which will be fully detailed by discussion of a number of important studies in the following section. The greatest area for dispute is what constitutes the best and most accurate method for measurement of service quality.

4.3 Measuring Service Quality

In an attempt to address the issue of how to measure service quality, a scale based upon the utilization of ten elements was developed by Parasuraman, et al (1988) based upon a series of focus group interviews, which could be used to measure service quality perceptions. Originally, the ten elements developed for use in measuring service quality were tangibles, reliability, responsiveness, competence,

Table 4.2 Definition of Original Ten SERVQUAL Dimensions	
Dimension and Definition	**Questions Raised By Customers**
Tangibles: Appearance of physical facilities, equipment, personnel, and communication materials.	• Are the bank's facilities attractive? • Is my stockbroker dressed appropriately? • Is my credit card statement easy to understand?
Reliability: Ability to perform the promised service dependably and accurately.	• When a loan officer says she will call me back in 15 minutes, does she do so? • Does the stockbroker follow my exact instructions to buy or sell? • Is my credit card statement free of errors?
Responsiveness: Willingness to help customers and provide prompt service.	• When there is a problem with my bank statement, does the bank resolve the problem quickly? • Is my stockbroker willing to answer my questions? • Are charges for returned merchandise credited to my account promptly?
Competence: Possession of the required skills and knowledge to perform the service.	• Is the bank teller able to process my transactions without fumbling around? • Does my brokerage firm have the research capabilities to accurately track market developments? • When I call my credit card company, is the person at the other end able to answer my questions?
Courtesy: Politeness, respect, consideration, and friendliness of contact personnel.	• Does the bank teller have a pleasant demeanor? • Does my broker refrain from acting busy or being rude when I ask questions? • Are the telephone operators in the credit card company consistently polite when answering my calls?
Credibility: Trustworthiness, believability, honesty of service provider.	• Does the bank have a good reputation? • Does my broker refrain from pressuring me to buy? • Are the interest rates/fees charged by my credit card company consistent with the services provided?

Security: Freedom from danger, risk, or doubt.	• Is it safe for me to use the bank's automated teller machine? • Does my brokerage firm know where my stock certificate is? • Is my credit card safe from unauthorized use?

Table 4.2 Definition of Original Ten SERVQUAL Dimensions (Continued)

Dimension and Definition	**Questions Raised By Customers**
Access: Approachability and ease of contact.	• How easy is it for me to talk to senior bank officials when I have a problem? • Is it easy to get through to my broker over the phone? • Does the credit card company have a 24-hour, toll-free telephone number?
Communication: Keeping customers informed in language they can understand and listening to them.	• Can the loan officer explain clearly the various charges related to the mortgage loan? • Does my broker avoid using technical jargon? • When I call my credit card company, are they willing to listen to me?
Understanding the Customer: Making the effort to know customers and their needs.	• Does someone in my bank recognize me as a regular customer? • Does my broker try to determine what my specific financial objectives are? • Is the credit limit set by my credit card company consistent with what I can afford? (not too high or too low)

Source: Zeithaml, Parasuraman& Berry, (1988), *Delivering Quality Service*, New York, NY: Free Press, p. 21-22 (Modified).

courtesy, credibility, security, access, communications, and understanding the customer. Further studies by Parasuraman, et al (1988) brought about a major modification that changed the dimensions that could be used to measure service quality perceptions. This modification of the ten elements to five elements is clearly depicted in Table 4.4. Three of the original ten elements—tangibles, reliability, and responsiveness—remained unchanged. The other seven original elements were combined into two elements. Those elements known as competence, courtesy, credibility, and security were combined to form one of the new elements known as assurance, and the elements of access, communications, and understanding the customer were combined to form the new element known as empathy as noted in Table 4.4. Now, the five elements that made up what the authors called SERVQUAL were the following five dimensions of service quality: tangibles, reliability, responsiveness, assurance, and empathy, which are defined in Table 4.3. Based upon the five elements or dimensions, they postured that service quality could be measured by obtaining the difference between perceptions and expectations of those dimensions. A series of questions were presented to the customer, who was asked to rate their particular choices as to their expectations of service from the service provider.

Further, the customer was told to give their perceptions of the service being delivered by the service provider. An additional rating scale was used to corroborate the results.

The modified SERVQUAL dimensions are tangibles, reliability, responsiveness, assurance, and empathy which Zeithaml, et al (1988) determined to be the best determinates for measuring service quality. Not unexpected, SERVQUAL received critiques from several marketing researchers, such as Babakus and Mangold (1989) who had serious reservations about the ability of

Table 4.3 Definition of Modified SERVQUAL Dimensions

Dimension	Definition
Tangibles	Appearance of physical facilities, equipment, personnel, and communication materials.
Reliability	Ability to perform the promised service dependably and accurantely.
Responsiveness	Willingness to help customers and provide prompt

	service.
Assurance	Knowledge and courtesy of employees and their ability to convey trust and confidence.
Empathy	Caring, individualized attention the firm provides its customers.

Source: Zeithaml, Parasuraman& Berry, (1988), *Delivering Quality Service*, New York, NY: Free Press, p. 26.

Table 4.4 Corelation Between Modified SERVQUAL Dimensions and Original Ten Dimensions

Original Ten SERVQUAL Dimensions	Modified SERVQUAL Dimensions
Tangibles	Tangibles
Reliability	Reliability
Responsiveness	Responsiveness
Competence Courtesy Credibility Security	Assurance
Access Communications Understanding the Customer	Empathy

Source: Zeithaml, Parasuraman& Berry, (1988), *Delivering Quality Service*, New York, NY: Free Press, p. 25.

SERVQUAL's scales, reliability, and discriminant validity. They noted that the measurement techniques called into question a substantial potential for error and left a number of unanswered questions relating to its validity. Teas (1993) also found serious objections to SERVQUAL. He felt that the interpretation of the expectations standard was flawed. Additionally, operationalization of the expectation standard was not a workable option. He had problems with the evaluation of alternative models specifying the SQ construct as set out in the SERVQUAL instrument. His concerns were similar to Brown et al (1993) with regard to whether the five key dimensions capture all of the possible determinants of service quality. Cronin and Taylor (1992) stated that perceptions of service quality more closely approach customer evaluations of service provided. Parasuraman, et al (1994) disagreed with the Cronin and Taylor (1992) perceptions, feeling that disconfirmation is valid since it allows providers of service to establish gaps in the provided services. Dabholkar, et al (1996), Spreng and Mackoy (1996), and Taylor and Baker (1994) were among the few to use multi-item measures to ascertain overall service quality, which was accomplished with factors as antecedents. In all cases they only tested using a single-item measure that would prove unreliable in looking at factors as components versus factors as antecedents.

Howcroft (1992) in a pilot study of service quality in selected United Kingdom banks found that there were a number of inconsistencies between staff interpretations and what was observed with the customer. He noted that:

> "The different schools of thought on quality service would seem to agree on the basic premise that customer preferences of service quality are based upon a comparison between expectations and actual service performance." (Howcroft. 1992: page 126.)

Interestingly enough Howcroft (1992) concluded that most researchers would agree customer preferences can best be measured on the basis of comparing expectations to actual service. He found that outcome and process as an "holistic approach" best served the measurement process.

A slightly different approach was taken by Dabholkar, et al (2000) who found that perceptions and measured disconfirmation are more advantageous than computed disconfirmation, but they suggest further study to determine their study's ability to predict the power of service quality and customer satisfaction evaluations. They also recommend measured disconfirmation if gap analysis is used, and noted that cross-sectional design for service quality measurement would be more advantageous than longitudinal design. Bahia and Nantel (2000) in a Canadian bank study devised a measurement system modifying SERVQUAL to examine the specific service context on a six-dimension scale called BSQ. BSQ by admission of the authors was limited in that its scale construction was based entirely upon expert opinion, published literature, and a small sample. They felt it would have more validity if the sample were larger.

In another recent study, Oppewal and Vriens (2000) noted that the use of integrated conjoint experiments to measure the perceived level of service quality provided a method of hierarchical information integration theory, which in their judgment avoids some of the measurement pitfalls of SERVQUAL. Unfortunately for the study, they noted:

> "It is therefore unclear whether in this study the substitution and replacement of terms that underlies the derivation of one overall utility functions was valid at all." (Oppewal and Vriens. 2000: page 169.)

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Perhaps, the study may have raised more questions than the answers it yielded, however, it did give some food for thought about another means of measurement through conjoint experiments to measure service quality perceptions.

Beckett, et al (2000) approached consumer behavior from a different concept. They utilized a consumer behavior matrix developed through focus group discussions to determine what impact electronic-based delivery systems will have on service and consequently, the quality of service.

Their consumer behavior matrix plotted consumer confidence against the factor of involvement, using four quadrants. Those quadrants representing what the researchers termed "four ideal types of consumer behavior" were repeat-passive, rational-active, no-purchase, and relational-dependent.

This section has shown a number of different studies of service quality measurement. It could be noted that there is no one study that fully and completely measures service quality and that there is a need to fill knowledge gaps with additional studies such as this one that might modify one of these studies.

4.4 Dimensions in Measuring Service Quality

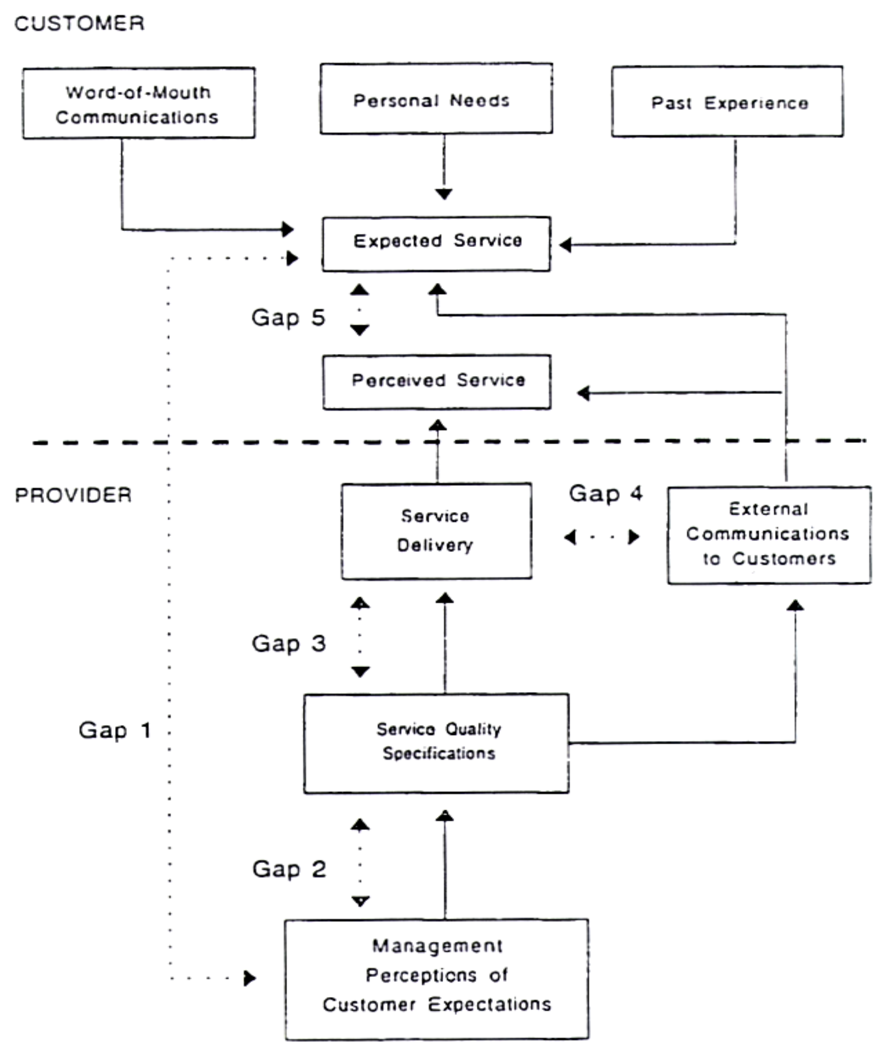
After a thorough examination of the research in the areas of service quality and customer satisfaction, it would be in order to examine the variables that impact the measurement of service quality. In the initial research relating to SERVQUAL, Parasuraman, et al (1985) established ten dimensions for measuring service quality. Those original dimensions defined in Table 4.2 above were tangibles, reliability, responsiveness, competence, courtesy, credibility, security, access, communication, and understanding the customer. This ten-dimension breakthrough approach to measuring service quality was criticized by Cronin and Taylor (1992) who not only did not agree with the measurement issue, but also criticized the conceptualization of SERVQUAL, and reported that the perceptions aspect of SERVQUAL was a much better measurement device that SERVQUAL itself.

Parasuraman, et al (1991) revised their SERVQUAL instrument by conducting a new study, which in its refined form changed some scale measurement elements and changed wording relating to those scales. They provided a direct measurement relating to the importance of each dimension reported by the respondents. After substantial research and an evaluation of various critical reviews of SERVQUAL, the modified dimensions as defined in Table 4.4 above are tangibles, reliability, responsiveness, assurance, and empathy (Parasuraman, et al, 1988 and 1994)

4.5 The SERVQUAL Model

As previously set out above, a number of researchers (Bateson, 1979; Berry, 1980; Bowen & Cummings, 1990; Groonoos, 1983, 1990; and Karwan & Rosen, 1988, among others) suggest that the various strategic opportunities for services management, including quality assurance, differ substantially from those in manufacturing management. Other researchers (Langevin, 1977; Levitt, 1972; Reukert, et al, 1985; Walker and Reukert, 1987) found that there was no essential difference and viewed marketing management as a function or a task, and did not embrace the services marketing approach across the organization. Those who noted a substantial difference saw the severe limitations of the usual manufacturing concepts in dealing with intangibles such as service. They also noted that you could not separate the customer from the process of delivering service.

Figure 4.1 Conceptual Model of Service Quality



The Development of Service Quality

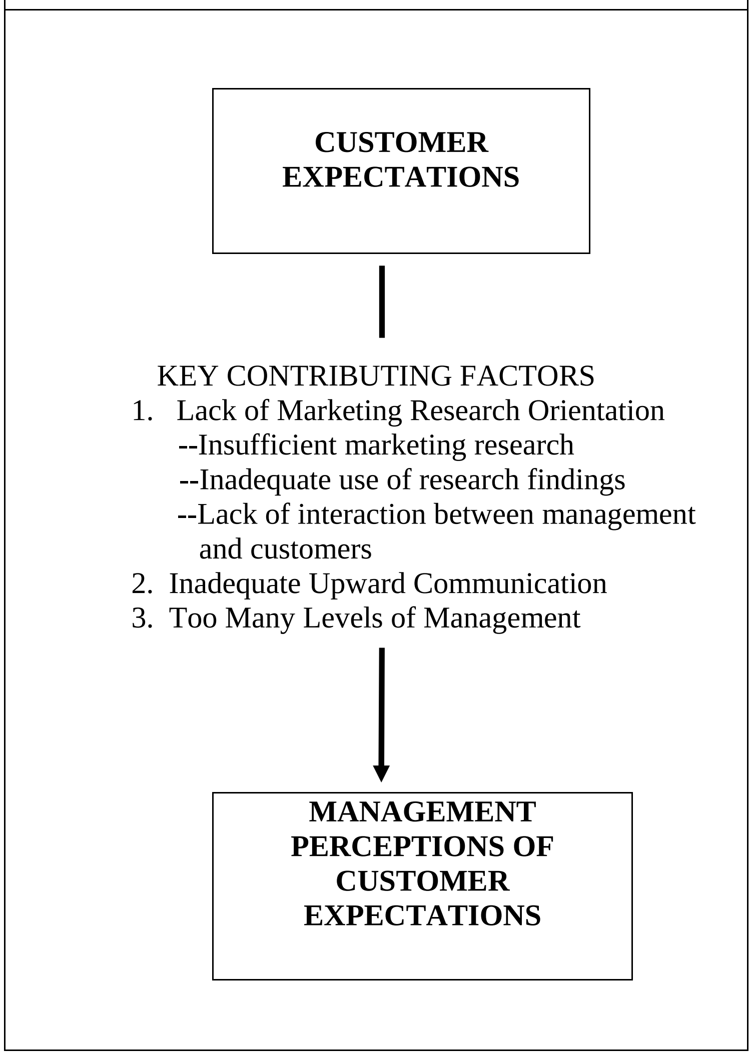
Source: Zeithaml, Parasuraman& Berry, (1988), "Communication and Control Processes in the Delivery of Service Quality," *Journal of Marketing,* 52 (April), p. 36.

Following the concept that service quality could be measured utilizing customer perceptions, Zeithaml, et al (1988) in their model provided for the customer to judge the process of quality throughout the delivery of service and then, examined product quality after the service delivery. He noted that the intangible, such as a friendly greeting or smile, during the delivery of service is a part of process quality, and the proper handling of the business transaction constitutes output quality.

The model by Zeithaml, et al (1988), as shown below in Figure 4.1, seeks to examine the amount and direction of the discrepancy between expected levels of service and the customer's perception of a delivered service noted as Gap 5 in Figure 4.1. In order to eliminate the discrepancies between expectations of service and the perception of the delivered service, the provider of the service must close the four gaps (Gaps 1-4). To close Gap 1, the management must know what the customers expect and Zeithaml, et al (1988) noted this is, in all likelihood, the most important gap to close. It was also noted that in service companies the absence of well defined "cues" may cause Gap 1 (see Figure 4.2 above) to be larger in service companies than in manufacturing firms.

Additionally, a lack of adequate marketing research can cause Gap 1 to be more difficult to close. Translating the customer expectations into service quality can close gap 2 specifications. An inadequate management commitment is the single largest cause for widening Gap 2. From Figure 4.2, it can be noted that perception of infeasibility, inadequate task standardization, and absence of goal setting are also major factors in widening Gap 2. Hax and Nicolas (1984) observed that most U. S. firms suffer significantly from short-term accounting-driven measures of performance used to establish the reward mechanisms for high-level

Figure 4.2 Key Factors Contributing to Gap 1



Source: Zeithaml, Parasuraman& Berry, (1988), *Delivering Quality Service,* New York, NY: Free Press, p. 52.

managers, who are mainly responsible for implementing strategic actions. It was also noted by Zeithaml, et al (1988) when managers are not dedicated to providing service quality from a customer's point of view, their entire focus is to bottom-line objectives without any consideration to improve service quality.

Figure 4.3 Key Factors Contributing to Gap 2

MANAGEMENT PERCEPTIONS OF CUSTOMER EXPECTATIONS

KEY CONTRIBUTING FACTORS

1. Inadequate Management Commitment
2. Perception of Infeasiblity
3. Inadequate Task Standardization
4. Absence of Goal Setting

SERVICE QUALITY SPECIFICATIONS

Source: Zeithaml, Parasuraman& Berry, (1988), *Delivering Quality Service*, New York, NY: Free Press, p. 72.

For Gap 3 to be closed, Zeithaml, et al (1988) model indicated that it would be necessary as set out in Figure 4.4 the key elements necessary to close Gap 3 are elimination of role ambiguity, role conflict, poor employee-job fit, poor technology-job fit, inappropriate supervisory control systems, lack of perceived control and lack of team work. Care must be taken to ensure when evaluating the elements that too broad an interpretation does not distort the evaluation.

Figure 4.4 Key Factors Contributing to Gap 3

SERVICE QUALITY SPECIFICATIONS

KEY CONTRIBUTING FACTORS

1. Role Ambiguity
2. Role Conflict
3. Poor Employee-Job Fit
4. Poor Technology-Job Fit
5. Inappropriate Supervisor Control Systems
6. Lack of Perceived Control
7. Lack of Team Work

SERVICE DELIVERY

Source: Zeithaml, Parasuraman& Berry, (1988), *Delivering Quality Service*, New York, NY: Free Press, p. 91.

Of all the gaps, it is Gap 3 that relies on actual employee performance and training which would imply that management's role in closing the gap is proper training and supervision of the staff. In discussing their model, Zeithaml, et al (1988) found that service provided by employees played a major role in customers selecting a firm.

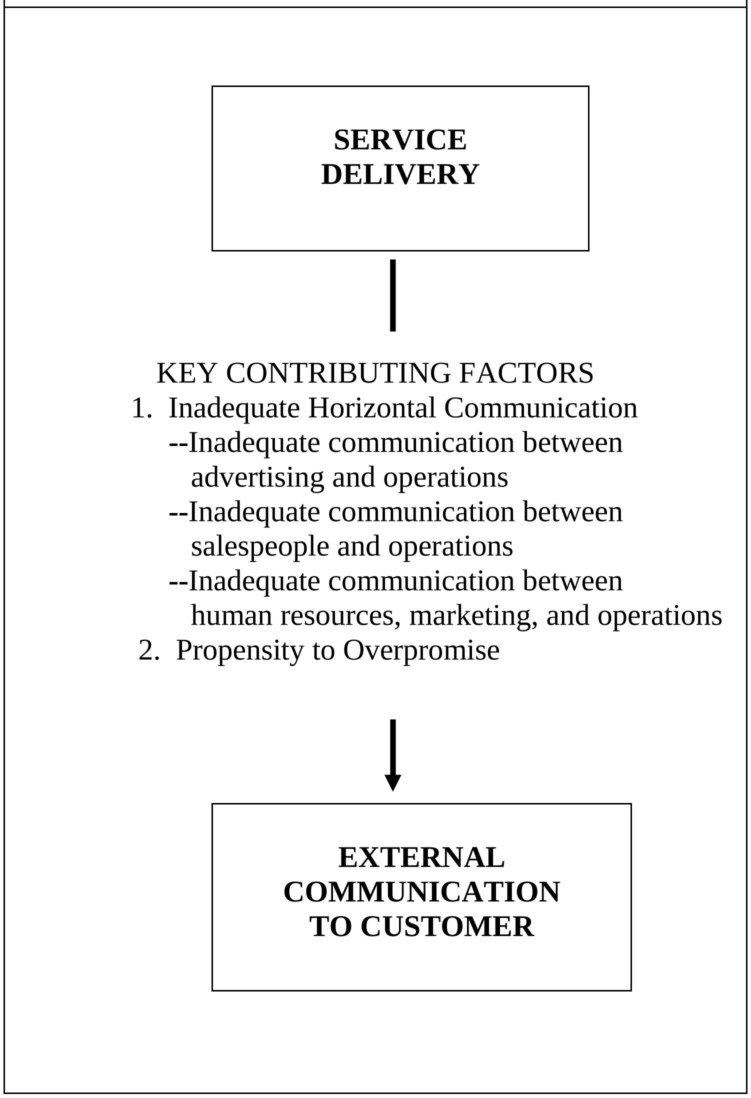
Gap 4 entails management ensuring that employees do not promise more than can be delivered and that everything promised in oral and written communications, advertising, and selling is delivered. Some of the pitfalls to closing Gap 4 as noted in Figure 4.5, revolve around inadequate horizontal communication, namely between the advertising function and the operations function; inadequate communication between sales personnel and operations; inadequate communications between human resources, marketing, and operations; and difference in policies and procedures across branches or departments. Another major area of concern in Gap 4 is the propensity to overpromise what the firm will or can deliver to the customer.

The advantage of Zeithamal, et al's (1988) model is the logical process by which organizations can measure and improve service quality: determine customer needs, translate needs to service standards, provide service that measures up to specified standards, and communicate accurate service information to customers.

4.6 Using SERVQUAL to Evaluate Service Quality

Regardless of the conflicting research evidence presented above, the SERVQUAL determinants have been widely accepted in the areas of service quality and customer satisfaction. Since the original ten determinants (Zeithaml, et al, 1988) have been modified into five determinants, only the current five will be addressed. A discussion of the five revised determinants developed by Parasuraman, et al (1991, 1994): tangibles, reliability, responsiveness, assurance, and empathy is set out below:

Figure 4.5 Key Factors Contributing to Gap 4



Source: Zeithaml, Parasuraman& Berry, (1988), *Delivering Quality Service*, New York, NY: Free Press, p. 116.

4.6.1 Tangibles

Tangibles would include those attributes pertaining to physical items such as equipment, buildings, and the appearance of both personnel and the devices utilized to communicate to the consumer. Bitner (1992) presented her conceptual framework for examining the impact of physical surroundings as it related to both customers and employees. Berry and Clark (1991) provided validation of the physical appearance on the consumer's assessment of quality. With the research by Bitner (1990), it was noted that physical appearance might influence the consumer's level of satisfaction. Tangibles was one of the original dimensions that was not modified by Zeithaml, et al (1988).

4.6.2 Reliability

Reliability relates to the personnel's ability to deliver the service in a dependable and accurate manner. Numerous researchers, including Garvin (1987) found that reliability tends to always show up in the evaluation of service. Parasuraman, et al (1988) indicated that reliability normally is the most important attribute consumers seek in the area of quality service. It was also determined by Parasuraman, et al (1991) that the conversion of negative wording to positive wording as suggested by Babakus and Boller (1991) and Carman (1990) increased the accuracy of this dimension. Negative wording in the request for a customer response caused the customer to misinterpret this particular determinant. Walker (1995) found that if there is an adequate delivery of the basic level of service, then peripheral performance leads consumers to evaluate the service encounter as satisfactory. Reliability was one of the original dimensions not modified by Zeithaml, et al (1988).

4.6.3 Responsiveness

The desire and willingness to assist customers and deliver prompt service makes up the dimension of responsiveness. Parasuraman, et al (1991) include such elements in responsiveness as telling the customer the exact time frame within which services will be performed, promptness of service, willingness to be of assistance, and never too busy to respond to customer requests. Bahia and Nantel (2000) disregarded responsiveness in their research, claiming a lack of reliability even though they recognized SERVQUAL and all of its dimensions as the best known, most universally accepted scale to measure perceived service quality. Responsiveness was also one of the original dimensions not modified by Zeithaml, et al (1988).

4.6.4 Assurance

Knowledgeable and courteous employees who inspire confidence and trust from their customers establish assurance. In banking studies by Anderson, et al (1976), it was determined that a substantial level of trust in the bank and its abilities was necessary to make the consumer comfortable enough to establish a banking relationship. Parasuraman, et al (1991) included actions by employees such as always courteous behavior instills confidence, and knowledge as prime elements of assurance.   Assurance replaces competence, courtesy, credibility, and security in the original ten dimensions for evaluating service quality (Zeithaml, et al, 1988).

4.6.5 Empathy

Empathy is the caring and personalized attention the organization provides its customers. Individual attention and convenient operating hours were the two primary elements included by Parasuraman, et al (1991) in their evaluation of empathy. The degree to which the customer feels the empathy will cause the customer to either accept or reject the service encounter. Empathy replaces access, communication, and understanding the customer in the original ten dimensions for evaluating service quality (Zeithaml, et al, 1988).

4.7 Validity of SERVQUAL in Measuring Service Quality

Much has been written in support of SERVQUAL, and conversely, much has been written critical of various aspects of the instrument or the measurement obtained. It seems appropriate to present challenges to and arguments for SERVQUAL as discussed in general and as it relates specifically to banking.

4.7.1 Challenges in General Areas Concerning Validity

Since the introduction in 1988 of SERVQUAL by Parasuraman, et al (1988), there have been numerous revisions to the original format, but most researchers who have been frequent critics of this measurement device (e.g., Brown, et al; 1993, Teas, 1993; Dabholkar, et al, 2000) accept and recognize the determinant roles of expectations and perceptions in service quality evaluation. The area that is most troublesome for the critics of SERVQUAL revolves around whether the five key dimensions capture all of the possible determinants of service quality. Brown et al, (1993) would agree that SERVQUAL is the most popular measure of service quality, but they have taken exception with using a scoring method to conceptionalize service quality. Their empirical investigation indicated that the problems they found with SERVQUAL manifest itself empirically in that it failed to achieve discriminant validity for all of its various components. When they utilized non-difference score measures they did not manifest the same problems as SERVQUAL. In fact, their measures allowed for direct comparison of expectations and perceptions without linear difference. They also had serious doubts that modification of wording to fit conceptualization had validity and felt that it should be studied further.

Teas (1993) found serious objections to SERVQUAL. He felt that the interpretation of the expectations standard was flawed. Additionally, operationalization of the expectation standard was not a workable option. He had problems with the evaluation of alternative models specifying the SQ construct as set out in the SERVQUAL instrument. His concerns were similar to Brown et al (1993) with regard to whether the five key dimensions capture all of the possible determinants of service quality.

Dabholkar et al, (2000) also was critical of SERVQUAL's five dimensions. They also found that perceptions and measured disconfirmation are more advantageous than computed disconfirmation, but they suggest further study to determine their study's ability to predict the power of service quality and customer satisfaction evaluations. They also recommend measured disconfirmation if gap analysis is used.

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Carman (1990) in his study found from six to eight dimensions, while Babakus and Boller (1992) determined that a two-dimension approach offered the most efficient and effective measurement device.

Cronin and Taylor (1992) came to the conclusion that the five dimensions did not hold for perceptions measured against performance, but did very well if only performance was measured. Their study concluded that utilizing the consumer's assessment of performance was adequate by itself to determine perceptions of service quality. Their non-difference score measure evaluated service quality without relying on the disconfirmation paradigm. They found that the perceptions component of SERVQUAL was able to outperform SERVQUAL itself, which caused them to conclude that the disconfirmation paradigm is not appropriate for perceived service quality. They observed that perceived quality should be reflected as an attitude, and as a result their criticism of Parasuraman et al for failing to define perceived service quality as an attitude in spite of their (Parasuraman et al, 1988) stating that service quality was "similar in many ways to an attitude".

Parasuraman, et al (1994) responded to specific concerns raised by two of the researchers (Cronin and Taylor, 1992; and Teas, 1993) relating to the SERVQUAL instrument as well as the perceptions without expectations. In addressing the criticism by Cronin and Taylor (1992), Parasuraman, et al (1994) noted:

> "In short, every argument that C&T make on the basis of their empirical findings to maintain that the SERVQUAL items form an unidimensional scale is questionable. Therefore, summing or averaging the

> scores across all items to create a single measure of service quality, as C&T have done in evaluating their structural models is questionable as well."
> (Parasuraman, et al. 1994: page 113).

They further noted that it would be important to determine the practical value of SERVQUAL to Cronin and Taylor's (1992) SERVPERF from the standpoint of asking if managers who measure service quality are seeking accuracy in determining service shortfalls or explaining variances. Parasuraman, et al (1994) agreed measuring variances is the only area in which SERVPERF performs better than SERVQUAL, but indicated that SERVQUAL's superior ability to be diagnostic more than outweighs any loss in predictive power.

Parasuraman, et al (1994) noted that the three issues raised by Teas (1993) were (1) interpretation of the expectations standard, (2) operationalization of this standard, and (3) evaluation of alternative models specifying the SQ construct. While they acknowledged that his conclusions have merit, there was in their judgment a need to reexamine his results before several of the assumptions would provide any true evaluation of SERVQUAL. Figure 4.5 set out below in Section 4.11 (Validity of SERVQUAL in Banking) utilizes studies by Carman (1990), Brensinger and Lambert (1990), Babakus and Boller (1991), Finn and Lamb (1991) and Parasuraman, et al (1991) to compare and assess the validity of the refined SERVQUAL instrument. Of special note is the part of the study by Parasuraman, *et al* (1991) which involved two banking organizations. Additionally, each of these studies further reinforced SERVQUAL as a reliable instrument, albeit with slight modifications.

4.8 The Importance of Service Quality Measurement in Banks

While there has been considerable research in the area of service quality, there are a number of fields in which a thorough examination of the service gaps has not been conducted, such as the subject study that will address this important measure from the standpoint of empirical studies of perceptions versus expectations. Banking in the United States is one of those areas in which a thorough examination of gaps between customers' expectations and bankers' perceptions of what the customer expects have not been thoroughly examined. Additionally, gaps between customers' expectations and actual services delivered are an area ripe for study. Why is service such an issue in banking? Berry, et al (1988) noted that most financial institutions are alike in the services provided to their customers. Likewise, he noted that their prices are generally comparable, and in fact might look similar in design, but where they differed was in the level of service provided to their customers. As financial institutions grow, there is a tendency for service to give way to volume delivery to enhance profitability. These large banks appear to have mistakenly concluded that quality service caused profits to erode. It would appear that service quality could make a difference according to Lewis (1993), who noted that service quality leads to reduced costs, increased profitability, and other beneficial elements. In answer to critics, she noted that there was often an initial cost to implement quality service, but the resultant benefit and subsequent increase in profits offset those start-up costs.

Acquiring customers and having them leave is not only disconcerting, it is counterproductive and a profit drain on the organization. One of the principal reasons for customers to leave an organization is poor service delivery. Avkiran (1994) indicated that a telephone study in the Australian state of Victoria revealed poor service to the customer as the most likely reason for customers to consider moving their banking relationships. He observed that service basically had two levels. The first level was desired service, which the customer desires, and the second level is known as adequate service, which is the minimum level the customer will accept. His research led to concluding that developing a "true customer franchise" requires firms to exceed both levels of desired service and acceptable service.

Coyne (1989) takes the opposite stance on service quality, which he states as follows:

> "There appear to be thresholds of service for affecting customer behavior… When satisfaction rose above a certain threshold, repurchase loyalty climbed rapidly. In contrast, when satisfaction fell below a different threshold, customer loyalty declined equally rapidly. However, between these thresholds, loyalty was relatively flat. I believe this twin threshold framework applies to a wide variety of service situations. " (Coyne. 1989: page 70).

While Coyne makes an interesting case for a lack of loyalty other than the extreme limits of service quality, his arguments are easily refuted as it relates to American banks by Finch and Helms (1996) who noted that the delivery of superior service is the best means for satisfying and consequently retaining customers.

Further, a two nation study of banking services by Witkowski and Keliner (1996) noted that American bank customers rank their American banks' services higher than German bank customers rank German banks' services, but they also noted that service expectations by the customers is considerably greater in American banks.

In a slightly different approach, but equally as compelling, Beckett, et al (2000) noted that consumers change their buying habits more frequently due to the rigid structure of many financial institutions today at the expense of service to the customer.

It was noted by Bahia and Nantel (2000) that there are no publicly available standard scales for measuring perceived quality in banks. It seems apparent from the studies that service quality is extremely important to an organization or a bank, but the dilemma seems to be how to accurately and reliably accomplish such measurement. The primary focus of this study is to seek such a means to measure service quality.

4.9 Service as an Element of Bank Selection

There have been a number of studies proving the importance of service as one of the primary elements in the selection of a bank by customers. Among the early empirical studies relating to bank selection decisions, Anderson, et al (1976) recognized the importance of selection as a priority for obtaining and retaining bank customers. Until this study, most of the early literature postured that location was consistently cited as the most important criterion in bank selection. Utilizing determinant attribute analysis, Anderson established two clusters, one made up of convenience oriented bank customers and the other based upon service oriented bank customers. Recommendation by friends and reputation ranked one and two respectively with the convenience oriented bank customers, while location ranked seventh. However, in the service oriented bank customers, recommendation by friends and location ranked one and two respectively, while reputation was a close third. It should be noted that service, while implied was not specifically offered as a category. Quick to attack the validity of the above study, Dupuy and Kehoe (1976) pointed out inconsistencies in the location criteria due to the determinant attribute utilized in the studies. They concluded that location was the most important factor in the selection process. The glaring inconsistency of Anderson et al, (1976) related to the “location” criterion. They used cluster analysis results across determinant attribute scores that were inconsistent with previous research. In a rebuttal, Anderson and Cox (1976) discounted the comments, noting that selection criterion can be important and still not be determinant in the decision process. To be drawn from this exchange, further research is definitely in order and was forthcoming in several empirical studies that examined the influence of physical and psychological dimensions of product performance on consumer satisfaction.

A few studies were conducted in the USA during the 1980s, but these studies failed to focus on the reasons for selection of banks by consumers rather they sought to identify the banking needs of the business customers. Most of the studies relating to both businesses’ and consumers’ criteria for selection of a bank have been conducted outside the US. Three US examples, Schlesinger et al (1987) sought to study what attributes 174 small businesses in New York utilized in selecting their bank. He concluded from the study that lending rates, accessibility of borrowing, and the number of services offered were the compelling attributes for selection of a bank. Buerger and Ulrich (1986) noted in a survey of 475 small businesses in Pennsylvania that price was the most important criteria for these businesses to select a bank, but had no other significant findings.

Rosenblatt et al, (1988) studied the selection criteria of 423 financial managers seeking to determine who is responsible for selection of a bank, the most important attributes in selecting a bank, and evaluation of bank services by corporate financial officers. Over forty percent of those surveyed responded. The survey gave a choice of thirty-one selection criteria to be rated on a seven-point scale (7 = very important). The first four criteria with rankings over six points were in order, efficiency of service, reliability of services, responsiveness of contact person, and service delivery.

A study relating to the selection of banks and banking services among corporate customers in South Africa (Turnbull and Gibbs, 1989) sought to determine the attributes that were considered most important in the selection of a commercial bank. Additionally, the study also sought to determine whether the companies had single or split banking relationships. A sample of 388 companies from the top 1,000 companies in South Africa was surveyed with a 44 per cent response rate. Nine criteria were available for selection. Quality of service ranked number one, followed by both pricing of services and quality of staff tied for number two. Ratings were consistent over small, medium, and large companies. Reputation/image and convenience of location were seventh and eighth. It was suggested by the researchers that perhaps the elements of reputation/image and convenience of location not being considered important might be because they assumed these as givens or they would not have chosen the bank.

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Haron (1994) evaluated commercial banks in Malaysia and noted that the level of success enjoyed was based upon bankers' ability to understand and satisfy customers' needs. As part of the issues examined, the customer base was uniquely diverse in that it was made up of Muslim and non-Muslim customer bases which on its face had the potential to offer inconsistent results. Therefore, the study was designed to determine selection criteria differences and usefulness of services. The findings established in a non-biased way, with nominal exceptions, that both Muslims and non-Muslims basically valued the same traits when selecting banks. Most important for the Muslims was fast and efficient service, which ranked second with non-Muslims. Friendliness of bank personnel was the most important factor with non-Muslims, but was ranked third by Muslims. Convenience of location was ranked seventh (last) by both groups.

Convenience of location, price, and advertising were found to have a nominal effect in bank selection in a Swedish study by Zineldin (1996). He examined strategic positioning by banks and the determinants of bank selection. It was concluded that it helps to build loyalty by creating more meaningful and deep customer relationships. This study was conducted to determine how customers select a bank in relation to other competing banks. Results of the survey revealed that functional quality such as friendliness, helpfulness, accuracy, efficiency, and speed of service ranked first among the customers surveyed. Conversely, the study found that convenience of location, price and advertising had a minor effect as noted above. Concluding his study, Zineldin noted:

> "For customers, the most important criteria used in selecting a bank was related to service quality and delivery systems." (Zineldin. 1996: page 22.)

A hierarchical information integration was used to examine customer preferences in banking by Ulengin (1998). Using sixteen profiles in a survey of Turkish banks the study concluded that the consumer was more interested in functional quality (such as loyalty) as opposed to technical quality (such as location.) The study surveyed consumers in the five largest cities in Turkey, that have 75 percent of the nation's banking facilities. It was noted that in this country the variety and quality of the products offered by banks exceed customer expectations. Likewise, there was little, if any differences in the products offered by the various banks. While there was high customer satisfaction, there were many problems in the delivery mechanisms and customer relations.

Nielsen et al (1998) surveyed all of the banks operating in Australia asking them to select from 15 criteria, the three most important factors they perceived to be important to customers selecting a bank. They also surveyed the business firms banking with all of the banks on the same basis. The customers ranked long term relationships first, location seventh, and service delivery eighth. On the other hand, banks ranked their perceptions of customer needs, showing competitive prices first, service fourth, and location fifteenth. Somewhat alarming was the inconsistency of bankers' perceptions and customers' desires, which bears further scrutiny. Nielsen et al (1998) had an interesting observation, which was inconsistent with their results:

> "Other banking studies have not found the day-to-day efficiency of bank operations to be important in the bank selection process. However, they have found service quality to be significant (Chan and Ma, 1990; Rosenblatt et al, 1988; Turnbull and Gibbs, 1989). One could assume that in the mind of business customers, both are clearly related." (Nielsen, et al. 1998: page 260.)

Ta and Har (2000) noted that most recent studies (Laroche et al, 1986; Sinkula and Lawtor, 1988; and Ying and Chua, 1989) found quality of service among the most important factors in the selection of banks by customers. Ta and Har studied undergraduate students in Singapore, seeking their criteria for bank selection. They utilized the Analytic Hierarchy Process, which involves the structuring of a given hierarchy in relation to the overall objective. The study utilized nine criteria for the selection decision within five banks. Their findings indicate that undergraduates place high emphasis on pricing and product dimensions for bank selection. A possible weakness of such a study revolves around two unknowns. First, were the students employed and second, did they have a banking relationship? Interestingly, convenient location and quality service ranked second and third respectively.

In summarizing determinants of bank selection, Zineldin (2000) had a general hypothesis that before and after the 1990s customers' views changed in bank selection. He noted that prior to the 1990s, customers did not have all of the electronic methods available to provide banking services such as credit cards, point of sale opportunities, electronic funds transfer and Internet, hence location convenience was most important. Subsequent to the 1990s, with all of the electronic opportunities service convenience became more important. He found service quality and delivery systems were most important in his recent study of Swedish banks. It was further concluded that convenience of location, price, and advertising continued to have only a minor effect in selecting a bank consistent with his prior study in 1996.

4.10 Service Quality Impacts Bank Profitability

In today's banking environment, banks' profitability levels have been compressed due to increased competition and spread reductions. Banks once relied upon products to make their profit margin in a highly regulated industry, and the customers basically were on the sidelines, but today banks are driven by customers who demand service quality (Stone, 1995). Berry et al, (1988) observed that quality of service is very important in separating competing businesses in the retail sector as well as in banking. Banks seeking to maximize profitability have come to realize that good quality helps a bank obtain and keep customers and poor quality will cause customers to leave a bank. It is well and good to recognize this need for implementing the practice of service by all of its employees, but how to carry out the practice and convince the bank's employees of this need is another matter. Lewis (1993) found that service quality was one of the most effective means of establishing a competitive position and improving profit performance. To establish a competitive position, it was noted by Hall (1995) that banks must measure and determine their level of service quality, if they desire to keep their customers and satisfy their needs. In addition, it should also be pointed out that the only means through which service can be measured is to ask the service recipients. Reinforcing this important research, there have been a large number of researchers who identify service quality as a primary means of providing a competitive advantage to banks, and according to Soteriou and Stavrinides (1997) the importance of service quality has been documented in numerous studies. They found that the advantage was readily identifiable through their research. In some specific studies in four U. S. banks, Morrall (1994) found that the implementation of service quality at First Chicago Bank, Compass Bank, Marquette Bancshares, Inc., and Wachovia Bank gave them a substantial advantage over their competitors. Once banks implemented service quality, their profitability was also noticeably improved.

4.11 Validity of SERVQUAL In Banking Applications

That SERVQUAL (Parasuraman, et al, 1985, 1986, 1988, 1990, 1991a, 1991b, 1993, 1994; Zeithaml et al., 1990, 1991, 1992, 1993, 1996) is a valid device for measuring service quality in banks is well documented and supported even by critics of the instrument. Babakus and Boller (1992); and Cronin and Taylor (1992, 1994) in the study noted in Table 4.5 agreed with the basic beneficial application of SERVQUAL in certain industries such as banking.

More recently, Oppewal and Vriens (2000) concluded that most of the measurement of perceived service quality had been accomplished using SERVQUAL, but felt that the instrument did not provide sufficient measures of service attributes and dimensions. To correct for this limitation they (Oppewal and Vriens, 2000) felt that conjoint analysis provided the solution.

It is unclear whether the substitution and replacement of terms that underlies the derivation of one overall utility function was valid at all. Coincidentally, they (Oppewal and Vriens, 2000) used the ten service dimensions from the original SERVQUAL instrument (Parasuraman, et al, 1985). They did indicate their comfort with the overall concept advanced in the SERVQUAL approach. Having made that observation, one must look at their observation set out above in which they indicate that SERVQUAL did not provide the necessary sufficient measures of service attributes and dimensions.

Table 4.5 Comparison of Refined SERVQUAL with Other SERVQUAL Replications

Study	Current Study	Babakus & Boller (1991)	Brensinger & Lambert (1990)	Carman (1990)	Finn & Lamb (1991)
Data Collection					
Study sample(s)	Customers of a telephone co., two Insurance cos., and two banks	Customers of an electric & gas utility co.	Purchasers of motor carrier services in busines-to-business markets	Customers of a dental school patient clinic, a business school placement center, a tire store and a hospital	Customers of four retail store types: "stores like K-mart, Wal-Mart, etc.; JC Penney, Sears, etc.; Dillard's, Foley's, etc.; & Saks, Neiman-Marcus, etc."
Sample size	Ranged from 290 to 487 across cos.	689	170	Ranged from 74 to 600+ across settings	Ranged from 58 to 69 across settings
Questionnaire format	Similar to PZB (1988) format with separate expectations and perceptions sections	Similar to PZB (1988)	Similar to PZB (1988)	Similar to PZB (1988) in the placement-center setting: only perceptions measured in the other three settings	Similar to PZB (1988)
Major wording changes	Negatively worded questions changed to positive form; "companies should" terminology in expectations section replaced with excellent companies "will" terminology	No major changes	No major changes	No major changes in the SERVQUAL items retained however, several of the new items added were transaction-specific (rather than general attitude state-ments as in the original SERVQUAL)	No major changes
Original SERVQUAL items retained	20 items (two remaining original items were replaced by new items)	All 22 items	All 22 items	Ranged from 10 to 17across settings	All 22 items
Response scale	7-point scale	7-point scale	7-point scale	7-point scale	5-point scale
Questionnaire	Mail survey	Mail survey	Mail survey	Self-administered by	Telephone survey

Administration				respondents on-site	
Procedure for Assessing factor Structure	Principal-axis factor analysis followed by oblique rotation	Principal-axis factor analysis followed by oblique rotation; LISREL confirmatory factor analysis of 5-dimensional measurement model	Principal-axis factor analysis followed by oblique rotation	Principal-axis factor analysis followed by oblique rotation	LISREL confirmatory factor analysis of 5-dimensional measurement model
Basis for initial Number of factors Extracted	PZB's (1988) 5-dimensional structure	PZB's (1988) 5-dimensional structure	PZB's (1988) 5-dimensional structure	Factors with eigen-values greater than one	PZB's (1988) 5-dimensional structure
Reliability coefficients (Cronbach's alphas)	.80 to .93	.67 to .83	.64 to .88	Mean of .75 (across 35 scales derived through factor analysis)	.59 to .83

Table 4.5 Continued Comparison of Refined SERVQUAL with Other SERVQUAL Replications

Study	**Current Study**	**Babakus & Boller (1991)**	**Brensinger & Lambert (1990)**	**Carman (1990)**	**Finn & Lamb (1991)**
Findings					
Final number of dimensions	Five (six if "tangibles" split into two) dimensions	No clear 5-dimensional factor structure; LISREL model fit poor;2-dimensional structure (with one representing negative items and the other positive items) most viable solution	5 dimensions as in PZB (1988); how-ever, only 4 factors retained based on eigenvalues/ greater-than- one criterion	Between 6 and 8 dimensions depending on setting	LISREL model fit for 5-dimensional structure poor (no alternative factor structures examined)
Predictive/ concurrent validity	Q(i.e.,P-E scores on the 5 dimensions explain .57 to .71 of variance in the overall quality scores measured on a 10-pt. scale; Q scores also related as hypothe-sized to presence of service problems, satisfactory problem resolution and willingness to recommend	Total Q scores (across all 22 items) correlative.59 with overall quality scores measured on a 4-pt. scale (however, total P scores correlate.66 with the same measure); correlation of Q and P scores with satisfactory complaint resolution are .58 and.60 respectively	Q scores on the five dimensions explain .39 of variance in 4-pt. overall quality scale; .43 of variance in 100-pt overall performance scale; .08 of variance in customer's "share of business" received by motor carriers	Not examined	Not examined

Source: A Parasuraman, et al (1991) "Refinement and Reassessment of SERVQUAL Scale," *Journal of Retailing,* 67/4, 435-438.

Cowling and Newman (1996) reported on the adoption of SERVQUAL in two British clearing banks and stated the following:

> "Bank A applied SERVQUAL, which uses five dimensions of quality in service: responsiveness, empathy, assurance,

> reliability, and intangibles. A national market survey indicated that the expectations of customers are very high with over 90% across all five dimensions of service quality. The triangulated implementation of SERVQUAL nationwide, locally and internally from 1993-1995 has proven effective." (Cowling and Newman. 1996: Page 3)

Further, Cowling and Newman (1996) specifically noted that SERVQUAL worked extremely well in the two banks, and that the researchers had no trouble in the implementation. They did find some overlap in the two dimensions—empathy and assurance.

Yavas, et al (1997) in a study of Turkish Banks, noted that using SERVQUAL could be of benefit to facilitate comparability to other studies, having used SERVQUAL to perform a bank consumer survey. Evaluating the gaps between customer expectations, Harvey (1995) noted that the methods utilized by Zeithaml, et al (1988) provided an opportunity to evaluate the five dimensions of service. Athanassopoulos (2000) indicated that in the area of identifying service quality antecedents, SERVQUAL dimensions had been thoroughly tested. Noting Carman (1990), he stated:

> "Empirical findings concerning facets of service quality indicate acceptance of SERVQUAL dimensions, subject to additional dimensions that emanate from industry-specific contexts." (Carman. 1990: Page 34.)

The above statement was set out in a study by Athanassopoulos (2000) evaluating market segmentation and explaining switching behavior.

In a study of one of the top ten banks in the United Kingdom, Newman (2001) pointed out several criticisms of SERVQUAL, among her findings she noted several areas of concern, such as what composed the sample, insensitivity to the customer, how long it takes to collect and process data, and the lack of information provided to the customer. Additionally, she was concerned that it did not address profit profiles, and inspite of efforts to improve service there was a substantial rise of customer dissatisfaction in UK banking over the past decade. However, she stated the following in her research:

> "Nevertheless, it (SERVQUAL) continues to be one of the most widely recognized methods of measuring service quality, notwithstanding these criticisms." (Newman. 2001: Page 129.)

Her comments came out of a study evaluating costs and benefits of using an instrument such as SERVQUAL to improve service quality. Additionally, Newman (2001) provided an endorsement regarding the success of SERVQUAL from 1994-1998 in one of the largest banks in the United Kingdom when she stated:

> "The hallmark of Bank 1's service quality initiative was the implementation of an annual year-long cycle of SERVQUAL measurement, staff feedback, action, and evaluation that has outlasted all its other service improvement initiatives." (Newman. 2001: Page 130.)

She further stated that interviews with head office senior management who championed the study revealed the following statement:

> "SERVQUAL measurement programme was instrumental in reducing the myopia of the organisation by introducing an external view, the customer's, on the quality of the bank's services and more significantly responding to the customers' verdict." (Newman. 2001: Pages 132-133.)

An excellent review and critique of SERVQUAL was published by Buttle (1996). He noted that SERVQUAL has had a substantial impact on both the business and academic fields. Identified in his critique were several theoretical and operational issues that are troubling. The most serious flaw relates to face validity and construct validity. Buttle (1996) stated in his conclusions:

> "Issues of face and construct validity are of overriding importance in the development of instruments such as SERVQUAL. The operational criticisms are evidently less significant than the theoretical criticisms, and pose less of a threat to validity. The theoretical criticisms raised in this article are of such moment that the validity of the instrument must be called into question." (Buttle. 1996: Page 25.)

Further, Buttle (1996) stated:

> "Despite these shortcomings, SERVQUAL seems to be moving rapidly towards institutionalized status. As Rust

> and Zahorik (1993) have observed, “the general SERVQUAL dimensions…should probably be put on any first pass list of attributes of service”. (Buttle. 1996: Page 25.)

SERVQUAL, as noted in the numerous studies above, has been used extensively over a rather large universe with successful results. This is not to say that it is a perfect device for measuring perceptions and expectations relating to service quality in banks. However, with modifications, it provides one of the most tested measurement tools for evaluating service quality.

4.12 Chapter Summary

The discussion in this chapter started with a brief, historical review of the development of the literature surrounding the role of service marketing and the relationship between service quality and customer satisfaction. A detailed review of how service quality was defined and measured along with an evaluation of the dimensions going into the measurement of service quality.

A review of the SERVQUAL Model (Parasuraman, et al, 1985, 1988) has been thoroughly examined both as an instrument to measure customer perceptions and expectations of service quality in a general industry setting as well as industry specific to the banking industry which is the subject of this study.

The value of SERVQUAL being able to measure service quality gaps was thoroughly reviewed. Then, the validity of SERVQUAL in general as a device for measuring service quality was addressed through the literature. Likewise, specific validity issues in the area of banking services were examined in the existing literature.

This present study will focus on an in-depth empirical investigation utilizing a modified SERVQUAL model. An attempt will be made to determine the impact of different variables such as age, income, education, sex, frequency of using bank services, services used, and primary location for receiving service on service quality perceptions and expectations.

Chapter Five

Methodology for the Research

5.1 Introduction

This chapter discusses the research aim and objectives, research methods, techniques, and procedures utilized to empirically test the model. It was noted by Bahia and Nantel (2000) that there are no publicly available standard scales for measuring perceived quality in banks. This study represents the researcher's struggle to come to grips with the apparent lack of service quality in United States community banks and the ability to measure service quality for customer retention. Using a group of community banks and a sample of their customer base, this study examines service quality gaps in a unique and original manner while utilizing a modification of the well-regarded SERVQUAL instrument.

Descriptions of how each construct of the empirical model was established are set out in this chapter. The objective of this chapter is to provide a description of the procedures used to measure the constructs and collect data. Following are the steps taken to carry out the research. Banking was selected as the chosen industry. Next, measures of the various constructs were developed and incorporated into two survey instruments. The survey instruments were tested at a banking meeting by bank executives and bank customers to ensure a higher level of reliability of the survey instrument. Based on the focus group's responses, certain scale items were modified and items were added to the survey. Last, data collection for the study commenced when the survey instruments were sent to a selected sample of banks that were asked to complete their survey instrument. Upon completion of their survey instrument, the banks distributed on a random basis to their customer base the customer survey instrument for completion and return directly to the researcher.

5.2 Aim and Research Objectives

The unique nature of the study revolves around customer expectations and perceptions of service quality in the delivery of financial services in community banks, The aim of this study was to advance academic knowledge in an area that has had limited empirical study-customer expectations versus customer perceptions giving additional support to group discrimination.

The first objective for this study was to advance academic knowledge in an area that has had limited empirical study—selection criteria. The study will seek to determine whether selection of a bank will be strongly influenced by service quality, and further whether service quality will be more important in the selection process than location, advertising, and recommendation of others. Collecting data to rank the reason for bank selection adds reinforcement to the existing academic knowledge in the area of determining the relative importance of service quality in the selection of a community bank.

A second objective is to contribute to academic knowledge by examining the issue of bankers' perceptions of customers' expectations to determine whether bankers understand their customers' requirements in the area of service quality. A unique aspect, which has not been previously investigated in the field, is comparing bankers' perceptions against customer expectations of service quality.

The study will also seek to determine if satisfactory service quality will tend to be associated with outcomes equal to or above customer expectations versus customer perceptions giving additional support to group discrimination.

A third objective is to determine whether a Service Expectation Grid can be utilized to determine the likelihood of customer retention. A final aim would seek to determine the impact of demographic variables.

5.3 Hypotheses

One of the primary issues uncovered was the lack of consistency in the literature concerning the importance of service quality in the selection of a bank or financial institution. As noted in Chapters 3 and 4, strong arguments have been made for service quality and customer satisfaction as determinates of selection, however an equally compelling argument was made for location. The literature was generally non-existent relating to the influence of demographic data such as gender, age, income, education,

5.3.1 Selection Criteria

The first hypothesis tested in this research examined whether customer selection of a bank will be strongly influenced by service quality. In Chapter 4, it was noted that the literature does not specifically address the issue from the unique standpoint of perceptions versus expectations, which this study addresses. From the respondent results, the study will seek to examine and evaluate the following hypothesis:

H_1 Customer selection of a bank will be strongly influenced by service quality.

The null hypothesis is, therefore:

H_{01} Customer selection of a bank will be not be strongly influenced by service quality.

5.3.2 Service Quality Versus Location

While the literature reports numerous studies relating to service quality, location, and other selection options, the literature review did not uncover a specific study relating to comparing which element was most important in influencing selection—service quality or location. To provide respondents with an unbiased choice, five factors including service quality and location were listed alphabetically for their choosing. Respondents were asked to rank each of the five elements. Hence the second hypothesis to be examined by the study is addressed as follows:

H_2 Service quality is more important in the selection of a bank by a customer than other factors, such as location, advertising, recommendation of others, etc.

The corresponding null hypothesis takes the following format:

H_{02} There is no evidence to indicate that service quality is more important in the selection of a bank by a customer than other factors, such as location, advertising, recommendation of others, etc.

5.3.3 Expectations/Perceptions of Bankers Versus Customers

The third hypothesis relates to bankers' perceptions of what their customers expect from their institutions in terms of service quality. There is a general void in the literature in comparing a banker's perception of what the customer expects. This issue is important from the standpoint the banker anticipating what the customer expects in terms of delivered service. The study will examine this hypothesis:

> H_3 Bankers tend to indicate that they know what services are best for customers. Hence, bankers' perceptions of customers' expectations will be lower than expectations by the customer.

The corresponding null hypothesis takes the following format:

> H_{o3} There is no evidence to indicate bankers' perceptions of customers' expectations will be lower than expectations by the customer.

5.3.4 Service Quality Outcomes

Will outcomes equal or exceed expectations? The literature addresses each of these issues, but does not make a definitive conclusion concerning this issue. For example, Churchill and Suprenant (1982) noted that early researchers did not measure customer satisfaction, Rather, the focus was on the linkage between expectations and perceived product performance. The study will examine this fourth hypothesis to determine if the following outcome can be reasonably and accurately be predicted:

H_4 Satisfactory service quality will tend to be associated with outcomes equal to or above expectations.

Hence the following null hypothesis:

H_{04} There is no evidence that satisfactory service quality will tend to be associated with outcomes equal to or above expectations.

5.3.5 Service Expectation/Perception Grid

The research outcome expects to be able to plot expectations versus perceptions on a grid that should be able to reasonably predict the likelihood of customer retention based upon these service quality constructs. The grid referred to in this hypothesis is set out above in Table 5.5 in this chapter. In research by Bahia and Nantel (2000) they found that there are no publicly available standard scales for measuring perceived quality in banks. Hence the fifth hypothesis expects to determine the likelihood of prediction on a service quality grid based upon the following:

H_5 The Service Expectation Perception Grid will describe the likelihood of customer retention.

The resulting null hypothesis is as follows:

H_{05} There is no evidence that a standard scale such as the Service Expectation Perception Grid will be able to describe the likelihood of customer retention.

5.3.6 Influence of Demographic Data

The literature has no definitive conclusions concerning the impact of whether demographic data such as gender, age, income, and education will have on service quality perceptions and expectations in general applications even though Howcroft, et al (2002) found variables such as age and other demographics impact customer selection and satisfaction in specific situations. This study has included specific questions relating to gender, age, income, and education in hopes of establishing either a positive or negative impact on overall service quality outcomes.

Therefore, the sixth and final hypothesis will examine the likelihood of the following:

> H_6 Differences in gender, age, income, and education will have a significant impact on service quality perceptions and service quality expectations.

A null hypothesis would be the following:

H_{06} There is an absence of significant evidence that differences in gender, age, income, and education will have a significant impact on service quality perceptions and service quality expectations.

5.4 Modifying the SERVQUAL Instrument

The revised SERVQUAL instrument by Parasuraman, et al, (1991b) offers the most reliable device to measure the difference-score conceptualization and evaluate expectations and perceptions of service quality. As pointed out in the previous chapter of this study, SERVQUAL examines five dimensions examining the reliability coefficients for the perception-minus-expectation scoring of gaps. The five factors are tangibles, reliability, responsiveness, assurance, and empathy. These five dimensions/factors are addressed across 22 questions that relate to the various five dimensions. The instrument's design causes it to be best suited for use as a diagnostic methodology utilized for determining large areas of service quality strengths and weaknesses. The instrument's developers (Parasuraman, et al, 1991b) offer the following suggestions and warnings that appear to have merit:

> "First, since SERVQUAL is the basic "skeleton" underlying service quality, it should be used in its entirety as much as possible. While minor modifications in the wording of items to adapt them to a specific setting are appropriate, deletion of items could affect the integrity of the scale and cast doubt on whether the reduced scale captures service quality." (Parasuraman, et al, 1991b, page 428.)

This study will follow the recommendations of the instrument's developers in that it will make only minor modifications in the wording to fit the banking environment being examined. No items will be deleted.

However, this study will attempt to further evaluate and refine the customer study by including such elements as age, income, education, gender, frequency of bank use, and items influencing the selection of the bank. Parasuraman, et al, (1991b) suggested that items not fitting in the five dimensions might be useful as long as they are treated separately in analyzing the survey data since they do not fall under the conceptual domain of service quality. It is this researcher's belief that the supplemental elements should be evaluated to determine if they have a bearing on the conceptual domain of service quality contrary to the conclusions of Parasuraman, et al, (1991b).

This study in addition to studying customers' expectations from a bank will attempt to describe managements' alignment with customer expectations. The SERVQUAL instrument, less the perception questions will be used to model an instrument to survey bank officers. In addition, supplemental elements will be included to determine their impact on the responses given by the bankers. The elements are location of bank, size of bank, reason banker perceives customer-selected bank, and years the banker answering the survey has been employed in banking.

5.5 Research Sample

The research sample consists of fifteen selected banks chosen on the basis of their status as a community bank and their geographical location (13 banks within the State of Texas, 1 bank in the State of Oklahoma, and 1 bank in the State of Utah.) The basis for the two banks from other geographical areas was to determine the similarity of responses of banks in other areas with that of Texas banks. A list of the banks is set out in Appendix 1.

Each of the fifteen banks' CEO was asked to complete the banker's questionnaire, and return it directly to the researcher. Subsequently, the bank was asked to distribute a number of customer questionnaires based upon the asset size of the bank with one distributed to every tenth customer in the lobby of the bank and the motor bank. The resulting bank research sample will represent fifteen banks with an expected response of 20 to 40 percent. However, more important to the research is the number of customers sampled that will total 2,000 or more. Returns are expected to be at a minimum twenty percent and a maximum of forty percent, which would equate to a minimum of 400 returns and a maximum of 800 returns. While the banks were not randomly selected, they were chosen on the basis of three predetermined criteria—status as community bank and geographical location. Providing the sample to every tenth customer at his or her facility will provide a randomly selected sample for the customer portion of the study.

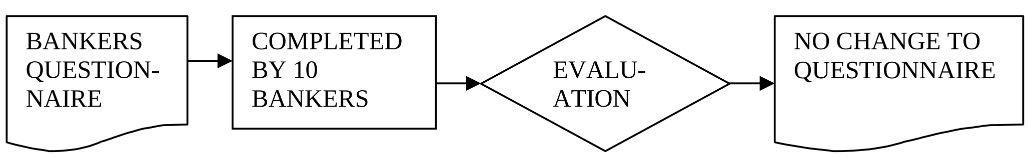
5.6 Formulation of Instruments

The development of the surveys was based upon a thorough literature review, the researcher's professional experience, and discussions with bankers. After the initial instruments were prepared, a pretest was conducted on both survey instruments at a regional banking meeting. Bankers were asked to complete the survey and evaluate the document. Subsequently following the bankers' meeting, bank customers were asked to complete the survey and evaluate the document. Furthermore, both the bankers' and the customers' interpretation matched the researcher's intended interpretation further supporting the validity of the SERVQUAL instrument. From the pretest, it was determined that the banker's survey instrument was adequate as tested, but this researcher added another supplemental element which ask the banker's perception of why the customer chose the bank. Likewise, the customers felt comfortable answering the survey. From the pretest, a weakness was noted in the section asking the products/services utilized by the participant customers. Based upon a suggestion, it was determined that a more valuable group of data to be collected would be a ranking by the customer concerning why they selected the bank. Collecting data to rank the reason for bank selection adds reinforcement to the existing academic knowledge in the area of determining the relative importance of service quality in the selection of a community bank. The surveys were modified, and the specific design is set out below.

5.6.1 Pretest/Focus Group

A group of ten bankers was given an opportunity to complete the banker questionnaire. They were asked to complete the questionnaire with only nominal instructions. Upon completion of the questionnaire, the group was brought together

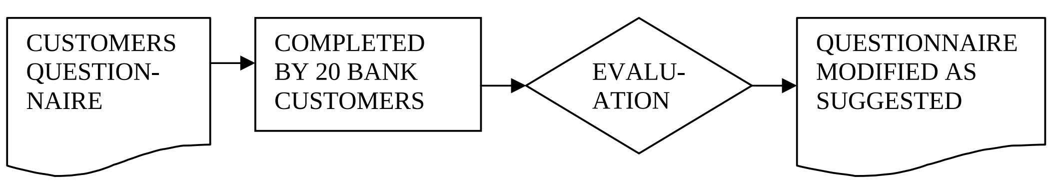
Figure 5.1 Bankers' Questionnaire Evaluation By Focus Group



to discuss the clarity of the instrument, specific problems with any questions, and recommendations for changes or additions to the questionnaire. The entire group felt that the questions were easy to understand, and they had no significant suggestions or recommendations for change. Furthermore, there was a unanimous interpretation of all the items in the questionnaire. No additional instructions were given to or requested by the group. Upon completion of the questionnaire, the entire group was brought back together for a focus group discussion. The customers were asked to evaluate the clarity of the instrument and the accompanying instructions, the specific problems with any questions, and any recommendations for changes or additions to the questionnaire.

The group felt that the questions were easy to understand, and they had no problems answering the specific questions. They did indicate that the questions addressing the issues of what specific services they utilized at the bank were invasive of their privacy, and as a result, most chose not to answer those particular questions.   There were no objections to the questions asking for age range, income range, education range, frequency of doing business with the bank, and facilities utilized. Upon specific questioning, none of the subjects had objections to those specific questions.

Figure 5.2 Customers' Questionnaire Evaluation By Focus Group



As a result of the suggestions obtained by the customers, the questionnaire was changed to include questions that the researcher thought might be helpful to determine which of seven specific items influenced their selection of a bank. Those items included convenience of location, number of services, operating hours, low charges, quality service, recommendation by a friend, and reputation of the bank.

5.6.2 Design and Development of the Customer Questionnaire

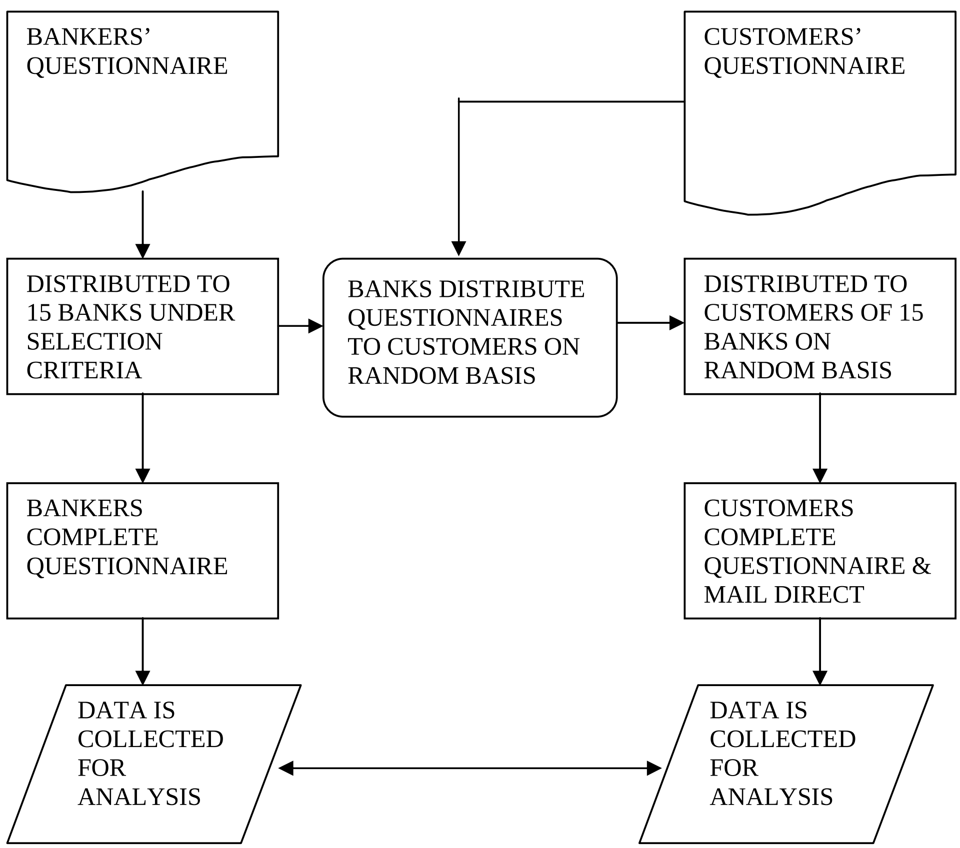
The SERVQUAL scale was selected for the customer survey instrument. To evaluate the five dimensions, the twenty-two statements were modified to apply to banking. Bank customers were asked to indicate their level of agreement for two sets of identical twenty-two statements. One set of questions asked the customer to state their perceptions about their bank's services. Another set of questions asked the customer to state their expectations about the bank's services. A seven-point Likert scale was used to evaluate the constructs. The third section of the survey instrument asked the customer to allocate 100 points among five categories, based upon the importance of each category. Those categories are the appearance of the bank's physical facilities, equipment, personnel, and communication materials; the bank's ability to perform the promised service dependably and accurately; the bank's willingness to help customers and provide prompt service; the knowledge and courtesy of the bank's employees and their ability to convey trust and confidence; and the caring, individualized attention the bank provides its customers. The third section of SERVQUAL is utilized to confirm the elements of perceptions-versus-expectations by evaluating the results of the five elements determined by breaking the differences determined by the answers to the twenty-two questions and breaking them into groups represented by the five elements. The results of the point values assigned in section three are compared to the five elements. Other data was collected to be able to cross-reference data such as gender, age, income, education, frequency in use of bank, ways service is accessed, services utilized, and reasons for selecting the bank. From the pretest, a weakness was noted in the section asking the services utilized by the participant customers. Comments such as too invasive, and why do you need this information about the services utilized? Upon evaluation of the pretest comments, it was determined that a more valuable group of data to be collected would be a ranking by the customer concerning why they selected the bank. The section asking which banking products/services they utilized was deleted from the modified survey instrument. A copy of the survey instrument is attached as Appendix 2.

5.6.3 Design and Development of the Banker Questionnaire

The modified SERVQUAL instrument was selected for the banker survey document. To evaluate the five dimensions, the twenty-two statements were modified to apply to banking. Bankers were asked to indicate their level of agreement for the twenty-two statements which were designed to obtain the bank CEO's perceptions concerning customers' service expectations from their bank. A seven-point Likert scale was used to evaluate the constructs. The last section of the survey instrument asked the banker to allocate 100 points among five categories which served to verify the five elements derived from the twenty-two question modified SERVQUAL instrument. Those categories are the appearance of the bank's physical facilities, equipment, personnel, and communication materials; the bank's ability to perform the promised service dependably and accurately; the bank's willingness to help customers and provide prompt service; the knowledge and courtesy of the bank's employees and their ability to convey trust and confidence; and the caring, individualized attention the bank provides its customers.

No changes were suggested from the pilot test of the survey instrument, but based upon a valuable suggestion; this researcher added a section to have the banker give their perception of the reason the customer selected the bank. A copy of the survey instrument is attached as Appendix 3.

Figure 5.3 Conceptualization of Data Collection



5.7 Data Collection

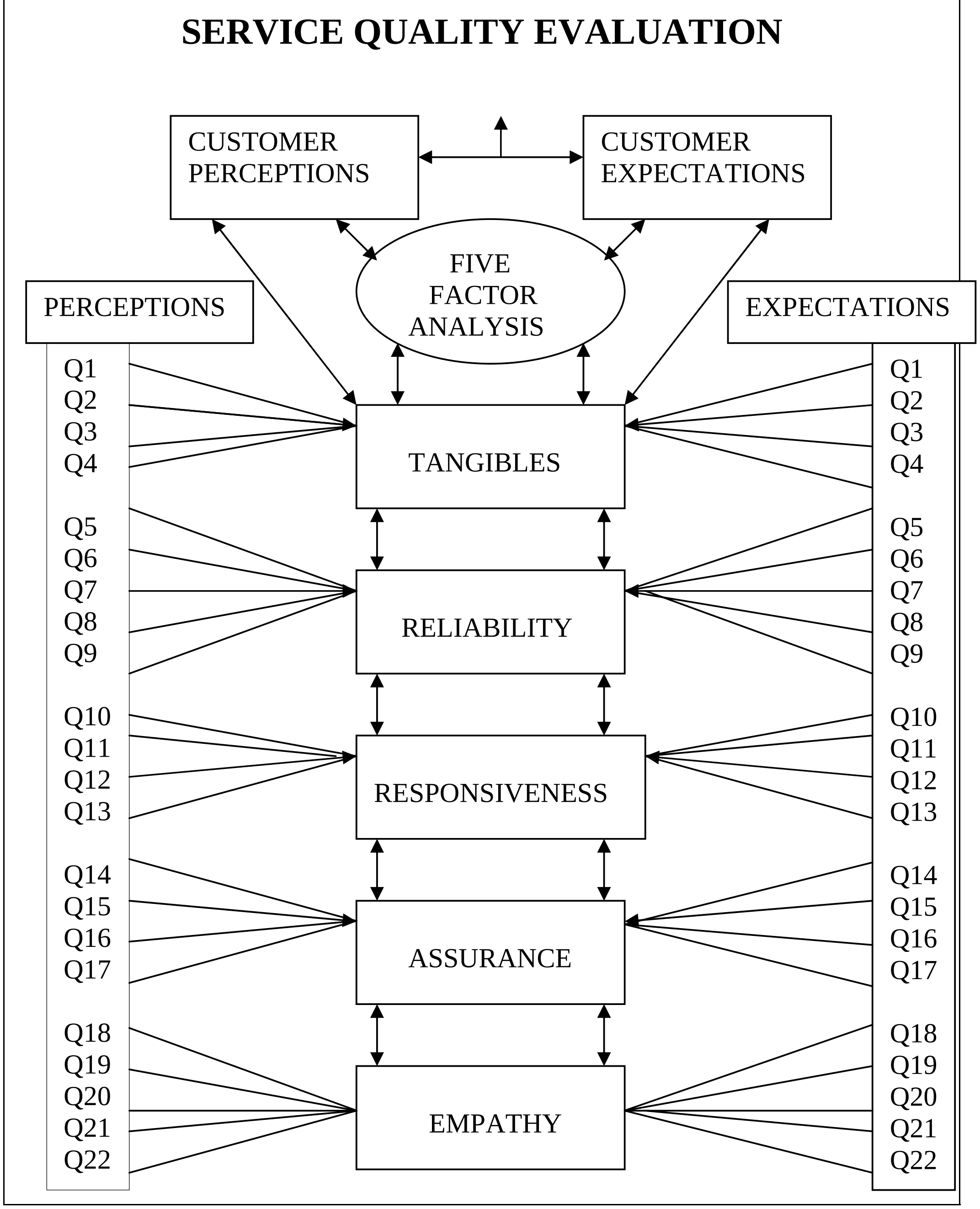
To obtain data that can be correlated between bankers and customers, a number unique to the bank was assigned to the questionnaires for the bank and for the customers of that specific bank. The bankers' questionnaires were completed by the bank's chief executive officer and returned to the researcher for tabulation and analysis. Customer questionnaires contained a postage-paid folder addressed for return directly to this researcher for tabulation and analysis.

5.8 Data Analysis

The choice of the statistical techniques to use in analyzing the data was a function of the objective of the research. In this study, the main objectives were to assess relationships among certain variables and test specific hypotheses regarding the nature of the relationships. An aspect unique to SERVQUAL is the interrelation between the five facets or indices known as tangibles, reliability, responsiveness, assurance, and empathy. Based upon numerous tests of SERVQUAL, it was noted that oblique rotations were required on an interrelated basis of the five factors. This study will seek to address the nature and causes of the interrelations as suggested by Parasuraman et al, (1991b). In addition, the study will attempt to reinforce the concept that elements such as age, education, income, gender, where they obtain their services, and frequency of use could have a serious impact on service quality.

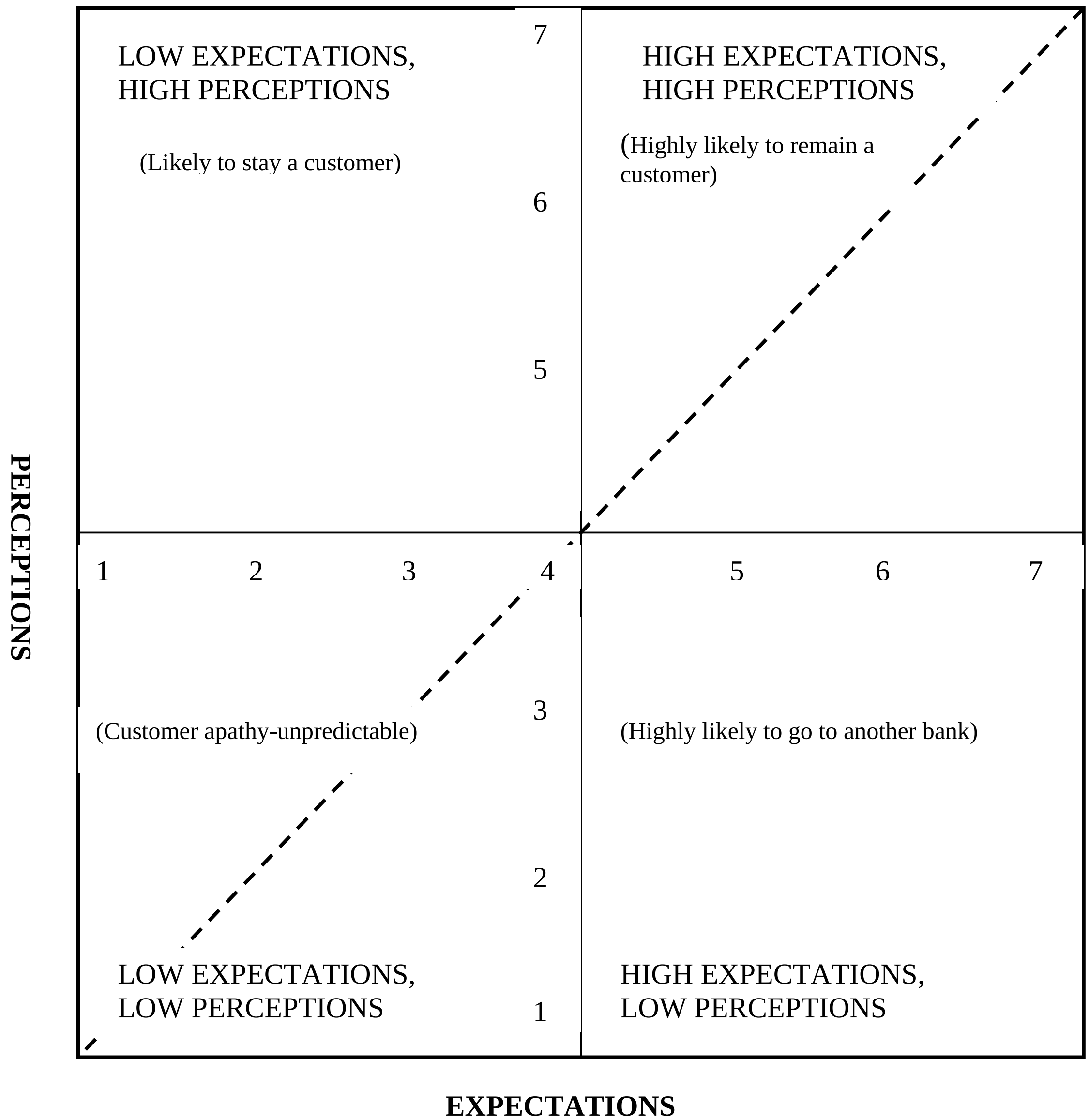
The statistical techniques considered for this study are Spearman's rho correlation, paired t-test on an item-by-item basis, and confidence intervals on paired differences on gap between expectations and perceptions. The twenty-two questions on perception and the twenty-two questions on expectation will be

Figure 5.4 Conceptualization of Data Analysis



evaluated as interval data. Additionally, the above tests will be replicated on the five indices (tangibles, reliability, responsiveness, assurance, and empathy). A factor analysis will be made on the resulting scores. The mean scores on a per item basis will be plotted on the Customer Retention Indicator Grid set out as Figure 5.5.

Figure 5.5 Customer Retention Indicator Grid



Questions one through four will produce a composite score to represent the tangible factor of the perceptions responses and measured against the tangible factor of the expectation responses for questions one through four. Subsequently, the gaps will be measured against the factors. Likewise, a composite score will be produced to represent perceptions responses to questions five through nine and will be measured against the expectation responses for questions five through nine to determine the difference gaps in the reliability factor. Those responses will be measured and plotted. Questions ten through thirteen will produce a composite score to represent the responsiveness factor and measured against that same factor in responses to expectations questions ten through thirteen. Once again, the resultant differences in the gap will result in the responsiveness factor.

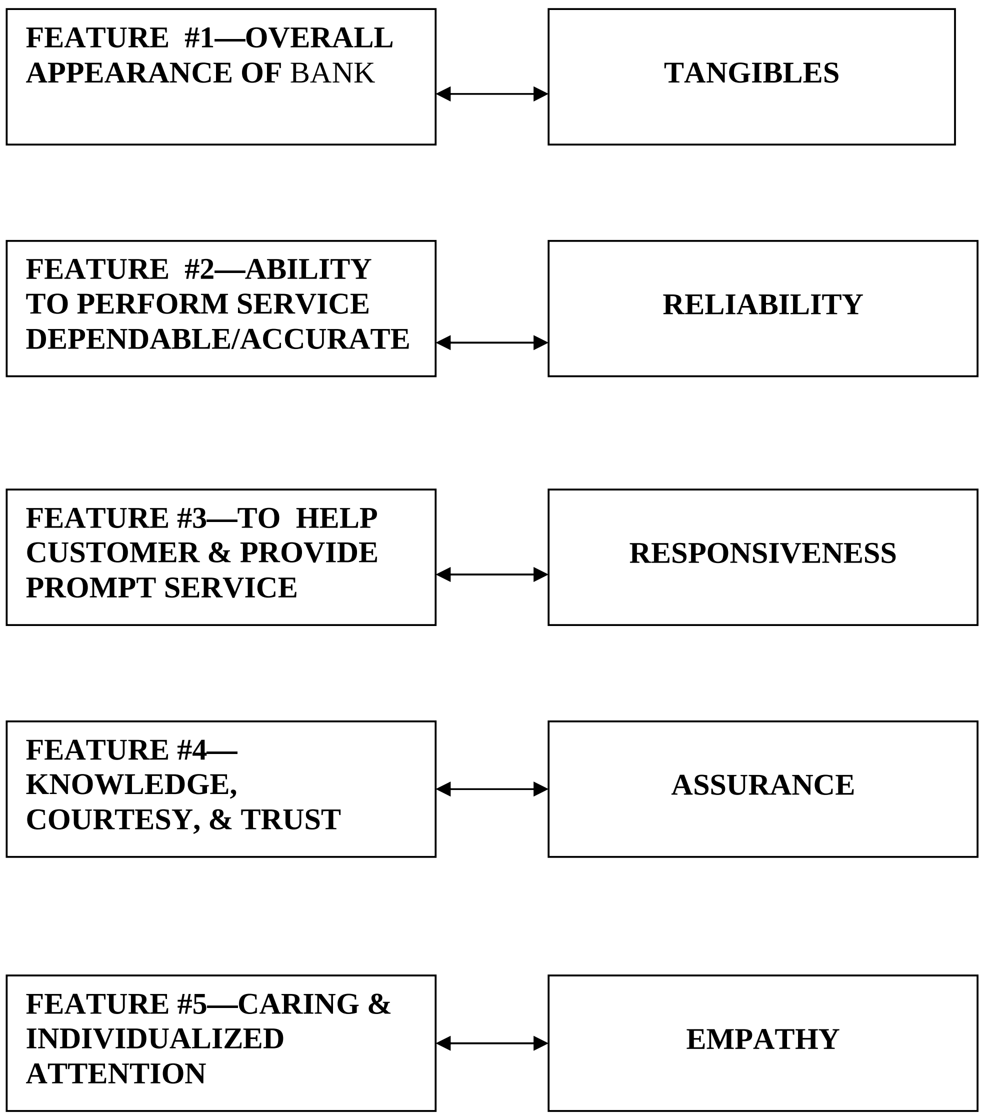
Responses to questions fourteen through seventeen will produce a composite score to represent the assurance factor of the perceptions responses and measured against the assurance factor of the expectation responses for questions fourteen through seventeen. Subsequently, the difference gaps will result in the assurance factor.

A composite score representing the perceptions responses to questions eighteen through twenty-two will be measured against the expectation responses for questions eighteen through twenty-two to determine the difference gaps in the reliability factor. Those response differences will result in the plot for reliability.

5.8.1 Confirmation Testing

Testing to confirm responses to the two sets of 22 questions will be compared with the answers obtained in Section 3, and then be used to test the

Figure 5.6 Confirmation Testing Diagram



consistency of the responses. Five features are set out in Section 3 of the Questionnaire and the respondents are asked to assign points to each of the five responses based upon the importance they believe the feature is to them as a bank customer. The more important the feature is to the respondent, the higher number of points that they should assign to the feature. They are asked to insure that the total allocated points for the five features add up to 100 points. Then, the results can be compared to the five-factor analysis applied by SERVQUAL as set out in Figure 5.6. The comparative values will provide data on the consistency of the respondents' answers to the 22 questions by evaluating the values assigned numerically to the five features.

5.8.2 Gender

While this researcher did not feel that gender would impact the results, it was felt that a test was necessary to determine the material impact, if any, based upon gender. Therefore, the respondents were asked to provide gender information.

5.8.3 Age

In Chapter 3, it was established that Howcroft, et al (2002) found variables such as age and other demographics impact customer selection and satisfaction. This researcher did not feel that age would materially impact the results, however, based upon the research of Howcroft, et al (2002), it was felt that a test was necessary to determine the impact, if any, based upon age. A question was placed in the questionnaire to allow five possible answers by age grouping. They were below 21 years old, 21 to 34 years old, 35 to 49 years old, 50 to 64 years old, and 65 years and older.

5.8.4 Household Income

This researcher felt that should any personal factor materially impact service quality in a positive way, it might be household income before taxes. The question posed to the respondents allowed five possible answers. These possible answers were under $25,000, $25,000 to $49,999, $50,000 to $74,999, $75,000 to $100,000, and over $100,000.

5.8.5 Education Level

Education level was not deemed by this researcher to be a material factor impacting service quality, however, it was felt that a test should be made to determine the outcome. Therefore, a question was posed to the respondents concerning the highest level of education attained. The possible answers were: did not complete high school, completed high school, completed some college, obtained a bachelors degree, and post graduate degree (masters or doctors degree).

5.8.6 Bank Visit Frequency

In the review of the literature, there was an absence of research concerning bank visit frequency impacting service quality in a material way, and therefore was deemed an important question to ask the respondents. The respondents were asked how frequently do they conduct business with the bank each month, and were given the following possible choices—one time or less each month, 2 to 4 times each month, 5 to 8 times each month, or 9 or more times each month.

5.8.7 Reasons for Selecting the Bank

The issue of whether location or service quality was the most important factor in the consumer selecting a bank has been debated and researched. Dupuy and Kehoe (1976) pointed out inconsistencies in the location criteria due to the determinant attribute utilized in the studies. In a rebuttal, Anderson and Cox (1976) discounted the comments of Dupuy and Kehoe (1976), noting that selection criterion can be important and still not be determinant in the decision process.

To be drawn from this exchange is the need for further research which this study attempts and by so doing, will supplement the current academic knowledge by adding empirical data to confirm the importance of service quality in bank selection. As a result, it was deemed important to include both of these factors along with several others to get a good representative sample of why a consumer chooses a bank.

The respondents were asked to rank from 1 to 5, with 1 being most important and 5 being least important the impact of the following factors including advertising, location, recommendation of others, service charges or fees, and service quality. The factors were placed in alphabetical order to avoid prejudicing the respondents' responses.

5.9 Reliability and Validity

Because of the extensive use and testing of SERVQUAL, the researcher is confident that SERVQUAL's historical reliability measures will transfer into the banking industry. Further, to enhance the reliability of the study, it should be noted that SERVQUAL has been utilized on a limited basis with regard to banking and financial institutions. However, it should be noted that since this research is unique and original in nature, reliability and validity tests would be examined to determine reliability and validity standards.

5.9.1 Reliability

The degree to which measurements may be repeated makes up reliability (Nunnally; 1978). To accomplish reliability, the two sets of twenty-two questions concerning perceptions and expectations reduced to five constructs and compared to a section in which the respondents were requested to place point values on five constructs. The ability to match up the construct of the same elements and determine similar scores will be accomplished by comparing the sets of constructs. The degree to which these two comparisons match-up gives a reasonable level of reliability.

5.9.2 Validity

Validity is more a matter of judgment than a fixed mathematical formula of unerring proportions (Nunnally; 1978). Therefore, the utilization of modified SERVQUAL questions, although they are not without their detractors, tends to reduce some of the issues raised concerning validity. With a thorough review of the literature, incorporation of data from the appropriate literature, and careful wording of the questionnaire documents, this researcher felt that there was a high degree of certainty of validity.

5.10 Limitations of the Research

There are several limitations associated with this study. First, the study is restricted to a specific geographic area as opposed to the entire United States of America. However, the limitation is mitigated when you take into consideration that the state of Texas has over 940 banks chartered within the state, which represents over 10% of all the banks in the United States of America, it could be a reasonably representative sample of the universe. Additionally, two banks from other states were included to determine similarity of responses. Cost and time constraints did not allow for a more extensive data collection. A larger and more representative sample may give broader representation to the measurement of perceptions versus expectations gaps. A second limitation may result in confining the bank sample selection to community banks, which represents the majority in number of banks within the United States, however the large, multi-regional banks represent the majority of assets held by the nation's banks. Finally, the study assumed that the respondents were all individual bank customers whose individual perceptions and expectations relating to service quality controlled the account, not taking into account possible joint satisfaction or lack thereof. To the extent the joint decision-making and joint satisfaction are important influences there is a limitation.

5.11 Chapter Summary

This methodology chapter provides a description of the procedures used to measure the constructs and collect the data. The industry selected for the study was a class of banks known as community banks primarily located within the state of Texas in the United States of America. The SERVQUAL instrument was selected as the most reliable device to measure the difference-score conceptualization and evaluate gaps between expectations and perceptions in service quality. Modifications were made on the SERVQUAL instrument to make it specific to banking, and additional questions were incorporated in separate sections to obtain additional data such as reasons for selecting the bank, along with other demographic data, which the researcher determined, would provide valuable information.

The research sample consists of fifteen selected banks chosen on the basis of their status and customers randomly selected at each of the fifteen banks. This should yield a relatively reliable sample with from a minimum of 400 returns to a maximum of 2,000 returns. Two questionnaires were formulated, one for bankers and the other for customers. Both questionnaires were tested in focus group sessions, and the appropriate changes were made. The bankers' questionnaire asked the bankers to indicate their perceptions of their customers' responses to service levels. Additionally, it contained some basic demographic information. The customers' questionnaire asked the customers to provide answers to twenty-two questions regarding their expectations of service quality along with twenty-two questions on their perceptions of the bank's service. Additionally, there were questions calling for assignment of values relating to the five pertinent factors, along with questions relating to gender, age, income, education, reasons for selecting the bank, and frequency of bank use.

A unique number was assigned to the bank and its customers for correlation purposes. The bankers' questionnaire was distributed to the chief executive officers of the fifteen banks to complete and return it. The bankers' questionnaires will be picked up in person by the researcher, at which time a number of questionnaires based upon the bank asset size will be left for the bank to distribute randomly to every tenth customer, and those customers will complete them, and return them directly by postage-paid mail for tabulation.

The main objectives of this research were to assess relationships among certain variables and test specific hypotheses regarding the nature of the relationships. The statistical techniques considered for this study are Spearman's Rho correlation, paired t-test on an item-by-item basis, and confidence intervals on paired differences on gap between expectations and perceptions. Five hypotheses were postulated based upon the review of the existing literature and other data.

Two of the limitations of this research are selections of only community banks and only banks in a limited geographic area. However, two community banks outside the state of Texas, namely one from the state of Oklahoma and one from the state of Utah were included in the sample to determine similarity with the responses from the primary universe.

Chapter Six

Research Findings

6.1 Introduction

This chapter presents the results of the research findings, outlining the various forms of analysis utilized to test the research hypotheses. A profile of the overall sample is presented. The analysis examines the demographic data such as gender, age, income, and education. Additionally, the data is evaluated in the areas of frequency of bank visits and reasons for choosing the financial institution. Analysis of variances was used to investigate the possibility of differences between respondent perceptions and expectations for each of the twenty-two questions. Following the research methods of the modified SERVQUAL (Parasuraman, et a; 1991b), model, a further grouping and evaluation of the data into a combined five-element analysis based upon groupings from the original twenty-two questions.

P-values were utilized to indicate the strength of the statistical evidence. Finally, the customer indicator grid predicting anticipated service quality results is evaluated.

6.2 Profile of the Sample

The targeted number of customer questionnaires distributed on a random basis by the 15 banks achieved the minimum projection of 2,000 customer questionnaires distributed. This resulted in 632 responses of which 554 were useable, which translates to a useable response rate of 28 percent. The banker questionnaire was sent to the chief executive officers of the 15 banks represented by the 2,000 consumers. All 15 responses were usable, which represents a response rate of 100 percent. While only 15 bankers were questioned, it was determined that responses from bankers whose consumers were questioned were more valid than having a large number of bankers respond who did not have their customers respond. Additionally, comparing the banker data to the customer data would not be representative, if the bankers' customers had not been part of the respondents.

6.3 Profile of the Respondents

The initial phase of the findings was to determine a profile of the respondents involved in the study. This will develop a profile of the respondents in terms of background information relating to the personal characteristics in the

TABLE 6.1 Respondent Demographics

FACTOR	NUMBER	%
AGE		
Below 21	21	3.8
21 – 34	87	15.9
35 – 49	190	34.7
50 – 64	183	33.4
65 and older	67	12.2
GENDER		
Male	285	52.0
Female	263	48.0
INCOME, $		
Under 25,000	77	14.6
25,000 – 49,999	152	28.9
50,000 – 74,999	94	17.9
75,000 – 99,999	79	15.0
100,000 or more	124	23.6
EDUCATION		
Less than High School Diploma	29	5.3
Completed High School	134	24.5
Some College	204	37.4
Bachelor's degree	127	23.3
Post-Graduate Degree	52	9.5
FACILITIES UTILIZED		
Bank Lobby		48.9
Motor Lobby		34.3
ATM		9.9
Internet		4.5
Mail		2.2

service quality perception versus actual delivery of the services. Data collected on the respondents was obtained in the areas of gender, age, income, education, frequency of bank visits, facilities of the bank utilized, and primary reason for choosing a bank.

The purpose of this profile was to obtain a visualization of the bank customers responding to the questionnaire.

6.3.1 Age of Respondents

Categories for the age of the respondents were established to reflect a logical system of age breakdowns in order that each age class should be sufficiently large to allow the data to be analyzed by methods such as ANOVA testing. Age of the respondents appear to be a reasonable representation of the banking universe in community banks. Respondents in the 34 to 49 years of age category represented 34.7% of all replies, closely followed by the 50 to 64 age grouping of respondents at 33.4%. The age group in the 21 to 34 years of age represented 15.9% of the respondents, while the 65 and over age category represented 12.2%. As would be expected, the under 21 years of age category represented the smallest number of replies at 3.8%. The age profile is set out as part of Table 6.1.

6.3.2 Sample Age Consistency With Universe

The age of the sample is highly consistent with the United States as a whole and is comparably close to the national census data (2003 U. S. Census Bureau). For example, the age of the sample respondents from 21 to 34 years of age totaled 15.9% while the national population in that age group, as a whole is 13.6%.

Examining the sample respondents indicates the 35 to 49 years of age to be 34.70% compared to the national population in that age group totaled 23.2%. In the 50 to 64 sample age group the total was 33.40% while the national population in that age group totaled 21.0%. The sample age group 65 and older totaled 12.2% while the national population in the over 65 years of age amounted to 12.4%. Therefore, it could be concluded that the sample age and the actual national population was extremely close with the exception of the 50 to 64 years of age sample group.

6.3.3 Gender of Respondents

Table 6.1 provides a gender profile by count and percent as part of the overall profile. It should be noted that the gender of the respondents was reasonably balanced with 52.0% of the replies being from males and 48.0% represented by females. These figures represent a reasonable closeness with the most recent United States Government Census figures extracted by Woods & Poole Economics, Inc. (2003) which indicates that the gender breakdown for the respondents' states were State of Texas 50.7% Female and 49.3% Male, State of Oklahoma 51.2% Female and 48.8% Male, and State of Utah 50.3 Female and 49.7% Male (the states from which the banks and consumers were sampled). Using a weighted average based upon the number of respondents from each of the three states, the average census breakout by gender would be 50.8% Female and 49.2% Male, which would reasonably mirror the population as a whole.

6.3.4 Sample Gender Consistency With Universe

The sample gender was reasonably consistent with the national population universe. The sample indicated 52.0% male, while the national population make-up 49.3% male providing a 2.7% difference. Females in the sample were 48.0%, with the national census indicating 50.7% female.

6.3.5 Income of Respondents

The respondents in the $25,000 to $49,999 category of income represented the largest group of respondents at 28.9%. Those respondents earning $100,000 and over represented the second largest group at 23.6%. The third largest group was the $50,000 to $74,999 income level at 17.9%. The $75,000 to $99,999 income group was fourth. The smallest group was the under $25,000 income group at 14.6%. These results are presented graphically in Table 6.1. The next section deals with any sample income consistency with the universe.

6.3.6 Sample Income Consistency With Universe

As expected, there was a bias between the respondents' reported income as noted in Table 6.1 and that of the sample's universe (states of Texas, Oklahoma, and Utah) in which the respondents reside. Perhaps, this can be explained from the standpoint that more high-income citizens tend to have more banking relationships than those in the lower income categories.

The greatest inconsistency between the sample and the universe in the category of income appeared where expected in the under $25,000, where the sample profile showed 14.6% and the universe of the population by income indicated 39.3%. The reason for this expectancy appears to be born out by the under $25,000 in income category being less likely to have a bank account. The $25,000 to $49,999 sample was 28.9% while the universe was 31.9%. In the sample category $50,000 to $74,999 income in this area was 17.9% with the national universe indicated to be 15.6%. There was also a degree of inconsistency in the $75,000 to $99,999 category and the over $100,000 category. In the $75,000 to $99,999 category the sample indicated 15.0% while the national universe was 6.6% or slightly below half the sample. In the over $100,000 sample size, the numbers were 23.6% with the national universe being 6.5%.

6.3.7 Education of Respondents

As set out in Table 6.1, the largest segment of respondents at 37.4% had completed some college work. The second largest group of respondents was those who had completed high school representing 24.5%. Those respondents with a bachelor's degree from college made up the third largest group at 23.3%, followed by 9.5% of the respondents who had a post graduate degree such as a Masters Degree or Doctor of Philosophy Degree. In the smallest group were those who had not completed high school at 5.3%. It was interesting to note that over 70% had completed some college work or held a college degree. Likewise, at the other end of the spectrum, it was surprising to note that only a small number of respondents (5.3%) had not completed high school or twelve years of formal schooling in the United States.

6.3.8 Sample Education Consistency With Universe

This research had more categories for education than was listed in the U. S. Census Bureau Data (2003). Thus to compare sample data to U. S. Census the education categories were collapsed into three groupings: high school diploma or more, some college or more, and a baccalaureate degree or more. The sample data with high school diploma or more was 94.7% while the national universe would be 90.1%. Those with some college or more in the sample (some college, bachelor's degree, and post graduate degree) totaled 60.7% with the national universe being 58.5%. By adding the bachelor's degree category and the post graduate degree category of the sample the number would be 32.8% while the national universe statistic is bachelor's degree or more which totals 29.5%. By matching up these categories, there is definitely a consistency between the sample and the national universe.

6.3.9 Respondents' Use of Bank Facilities

Respondents were given a list of five facilities options and were ask to provide the percentage of time they used each facility when conducting their banking business with their percentage total not to exceed 100 percent. Table 6.1 represents a percentage breakout of the facilities utilized by the respondents and approximates 100 percent. The bank lobby had the highest percentage of use by respondents with a total of 48.9 percent. The motor bank was selected second by the respondents for a total of 34.3 percent. Automated teller machines (ATM) represented a 9.9 percent total by respondents. A low number totaling 4.5 percent selected internet as their percentage of use. The smallest group was mail deposit that totaled only 2.2 percent.

6.4 Testing Hypothesis 1

This hypothesis related to the importance of service quality as a strong influence in the selection of a bank by a customer. The hypothesis was based upon the literature reviewed in Chapter 4, which provided additional detail of service quality as an important element in the selection of a bank. More specifically, the literature by a large preponderance indicated some degree of importance of service quality in selection.

In Chapter 4, it was also noted that the literature does not specifically address the issue from the unique standpoint of perceptions versus expectations, which this study addresses in the research questionnaire. From the respondent results, the study will seek to examine and evaluate the following hypothesis:
The first hypothesis was, therefore:

H_1 : Customer selection of a bank will be strongly influenced by service quality.

The null hypothesis for H_1 is:

H_{01} : Customer selection of a bank will be not be strongly influenced by service quality.

6.5 Analysis for Testing Hypothesis 1

While numerous researchers have postulated on the importance of service quality in general, with a limited amount of research in the area of service quality being a major factor in the selection of a bank by customers, this study has empirically established that customer selection of a bank will be strongly influenced by service quality by quantitatively measuring customer expectations against the customer perceptions of delivered service.

6.5.1 Examining the Differences Between Consumer Expectations Versus Perceptions of Actual Service Delivery

The differences between consumer expectations versus perceptions of actual service delivery were examined by analyzing how the answers to the 22 questions requesting expectations of service delivery compared to the 22 questions evaluating perceptions of service delivery. Each of the respondents provided an expectation rating and perception rating for each of the 22 questions. The difference between expectations and perceptions was compared for each of the 22 questions. The sample produced a mean difference for each of the 22 questions with the difference being expectations minus perceptions (D=E-P). A negative difference indicates on the average that perceived reality exceeds expectations that should produce satisfied customers. On the other hand, a positive difference indicates that on the average perception of service delivery failed to meet the expected level of service quality indirectly producing dissatisfied customers.

The differences noted in the responses to the twenty-two questions were further grouped into the five elements suggested by SERVQUAL researchers Parasuraman, et al (1991b). These five elements are tangible, reliability, responsiveness, assurance, and empathy. Questions one through four represent the tangible element. The reliability element was made up of questions five through nine. An element making up responsiveness included questions ten through thirteen. The next grouping of questions making up the element of assurance was questions fourteen through seventeen. The fifth and last element, empathy, contained questions eighteen through twenty-two. They are discussed in detail below.

6.5.2 Tangible Differences Between Consumer Expectations to Perceptions

To obtain a better evaluation of the tangible aspects of consumer expectations compared to perceptions, the first four questions evaluated the tangible elements of the results. It should be noted that Table 6.2 below illustrates the average differences between expectations versus the perceptions and further sets out the results of the t-test for each of the questions.

Looking at the tangible elements mean differences, the mean scores indicated that on the average consumers felt that for two of the questions their perceptions exceeded their expectations, while the other two questions they felt that their expectations were not met. In question one the mean score of a positive 0.360 (p-value <0.0001) gave evidence that the consumers did not feel that the expectations were met with regard to their bank having state-of-the-art technology. It could be noted at the zero point on the difference, 50 percent of the respondents indicated that perceptions met expectations in question one, however, it is equally significant that 33.5 percent of the respondents felt that their expectations were not met, and another 16.5 percent indicating that perceptions exceeded expectations.

In question number two the mean average of a negative 0.254 (p-value <0.0001) indicated that overall expectations exceeded perceptions with regard to the physical facilities of the bank being appealing. The zero difference for question two was 46.4 percent where expectations met perceptions with another 34.7 percent of the consumers indicated that expectations exceeded perceptions. Still there were another 18.8 percent of the respondents that were not satisfied that their expectations were met.

Table 6.2 Tangible Differences of Consumer Expectations to Perceptions
(Questions numbered as they appear in questionnaire instruments.)

1. A bank should have state-of-the-art technology.
2. Physical facilities of bank should be appealing.
3. Employees of a bank should be professional.
4. The materials in a bank should be appealing.

Average Differences on Questions

Difference	**Q1**		**Q2**		**Q3**		**Q4**	
D=E-P	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**#**
-6	0	0	0	0	0	0	0	0
-5	0	0	1	0.183	0	0	0	0
-4	1	0.184	2	0.366	0	0	1	0.183
-3	9	1.654	22	4.022	6	1.095	19	3.480
-2	19	3.493	63	11.517	10	1.825	48	8.791
-1	61	11.213	102	18.647	33	6.022	106	19.414
0	272	50.000	254	46.435	361	65.876	273	50.000
1	93	17.096	61	11.152	84	15.328	65	11.905
2	56	10.294	29	5.302	39	7.117	25	4.579
3	15	2.757	7	1.280	9	1.642	5	0.916
4	15	2.757	3	0.548	5	0.912	3	0.549
5	2	0.368	2	0.366	0	0	1	0.183
6	1	0.184	1	0.183	1	0.182	0	0

	Q1	**Q2**	**Q3**	**Q4**
Mean	0.360	-0.254	0.263	-0.212
t-Value	6.382	-4.511	6.272	-4.251
p-Value	<.0001	<.0001	<.0001	<.0001

Research Findings

The mean average of a positive 0.263 (p-value <0.0001) indicated in question three that consumers did not feel their expectations were met with regard to expecting the employees of the bank being professional. At the zero difference point, 65.9 percent of the consumers felt that their perceptions match their expectations, however there were still 25.2 percent of the respondents indicated that their perceived level of professionalism exhibited by bank employees did not meet their expectations. The remaining 8.9 percent of the consumers stated their actual experiences exceeded expectations.

Question number four reflected a mean difference of negative 0.212 (p-value <0.0001) indicating that their perceptions exceeded their expectations with regard to expecting the materials in a bank to be appealing. At the zero point of the range, 50.0 percent of the respondents reality exactly met their expectations. Another 31.9 percent responded that perceptions exceeded their expectations, with the remaining 18.1 percent indicating some level of disappointment.

The tangible component of four items resulted in two items (appeal of facilities and appeal of materials) where the customers' experiences exceeded their expectations. The customers expressed a level of disappointment in the remaining two items (technology and employee professionalism). It can be argued that the tangible component has two subcomponents, initial appeal (used to attract customers) and efficiencies (used to retain customers). It should be noted that a large percentage of the sampled customers (ranging from 46 to 66 percent) experienced realities (perceptions) that exactly met their expectations of the tangible items. For those who did not express this exact match of reality with expectations there was evidence that the banks exceeded expectations with respect to the physical tangible items (appearance). However, there was a level of disappointment with the tangible items that related to efficiency of customer service. The banks clearly have demonstrated expertise at producing the appealing aspects of tangibility. However, customers have indicated that the banks have not yet mastered the efficiency aspect of tangibility, which could be a major factor in the ability of a bank to retain customers.

6.5.3 Reliability Differences Between Consumer Expectations to Perceptions

The reliability differences between consumer expectations compared to perceptions utilized the responses to questions five through nine for the evaluation. Table 6.3 below illustrates the average differences between expectations versus the perceptions and presents the results of the t-test for each of the questions in the area of reliability. All five of the reliability questions deal with performance of banking services.

In question five the mean difference of a positive 0.294 (p-value <0.0001) gave evidence that the consumers did not feel that that the expectations were met concerning the bank delivering on their promises in a timely manner. It should be noted that 64.7 percent of the respondents indicated that their experiences exactly met expectations (D=0), however where differences in reality and expectations occurred, a preponderance of the respondents indicated that the service received met expectations. It was noted by 28.0 percent that reality did not meet expectations compared with another 7.3 percent that indicated that their experiences exceeded expectations.

Research Findings

The mean difference in question six was a positive 0.223 (p-value <0.0001) indicating that perceptions failed to meet expectations with regard to bank employees being sympathetic to solving customer problems, even though the zero range point indicated that 63.7 percent of the respondents felt that their expectations were equal to their perceptions. A significant number of respondents totaling 23.2 percent indicated that perceptions failed to meet their expectations, while 13.1 percent of the consumer respondents noted that perceptions exceeded their expectations with regard to bank employees being sympathetic to solving customer problems.

Question number seven revealed a mean difference of a positive 0.288 (p-value <0.001), which would indicate that expectations were not met in the area of consumers expecting the bank services to be performed right the first time. Consumers at the zero difference point totaled 58.9 percent, meaning that perceptions exactly equaled expectations, however there were 27.5 percent of the respondents who indicated that their expectations were equal to the perceptions. A total of 13.6 percent of the consumers responded that their expectations exceeded perceptions.

That a bank should deliver services on time was the subject of question number eight where a mean difference of a positive 0.296 (p-value <0.0001) indicated that expectations were not satisfied. Even though expectations were not met overall, a zero difference of 65.3 percent of the consumers indicated that expectations equaled perceptions. Respondents totaling 26.3 percent stated that their expectations did not exceed perceptions, and another 8.4 percent indicated that perceptions exceeded expectations with regard to a bank delivering services on time.

Question number nine had a positive mean difference of 0,288 (p-values <0.0001) indicates that perceptions did not meet expectations with regard to banks insisting on error-free records. On the other hand, at the zero difference level 64.6 percent of the respondents stated that perceptions exactly equaled expectations, and

Table 6.3 Reliability Differences of Consumer Expectations to Perceptions
(Questions numbered as they appear in questionnaire instruments.)

5. A bank should deliver on promises in a timely manner.
6. Bank employees should be sympathetic to solving customer problems.
7. Bank services should be performed right the first time.
8. A bank should deliver services on time.
9. The bank should insist on error-free records.

Average Differences on Questions

Difference	**Q5**		**Q6**		**Q7**		**Q8**		**Q9**	
D=E-P	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**
-6	0	0	0	0	1	0	1	0.183	1	0.184
-5	0	0	0	0	0	0	0	0	0	0
-4	0	0	0	0	0	0	0	0	0	0
-3	1	0.183	4	0.730	4	0.734	1	0.183	1	0.184
-2	9	1.645	16	2.920	11	2.018	1	0.183	12	2.210
-1	30	5.484	52	9.489	55	10.092	43	7.861	51	9.392
0	354	64.717	349	63.686	321	58.899	357	65.265	351	64.641
1	114	20.841	75	13.686	86	15.780	99	18.099	83	15.285
2	28	5.119	28	5.109	46	8.440	31	5.667	26	4.788
3	5	0.914	11	2.007	15	2.752	8	1.463	10	1.842
4	4	0.731	11	2.007	3	0.550	2	0.366	2	0.368
5	1	0.183	1	0.182	1	0.183	1	0.183	1	0.184
6	1	0.183	1	0.182	2	0.367	3	0.548	5	0.921

	Q5	**Q6**	**Q7**	**Q8**	**Q9**
Mean	0.294	0.224	0.288	0.296	0.228
t-Value	7.815	4.83	6.034	7.209	4.297
p-Value	<.0001	<.0001	<.0001	<.0001	<.0001

another 12.0 percent indicated that perceptions exceeded expectations. At the other extreme, 23.4 percent of the consumers stated that perceptions did not meet expectations in the area of insisting that the bank have error-free records. In all five of the reliability questions, it was noted that perceptions did not meet expectations (ranging from 20 to 24 percent), which would indicate that there are reliability issues for a substantial number of the responding consumers in the areas of problem solving, delivering on promises, and providing services. However, a majority of the respondents (ranging from 58 to 65 percent) did state that expectations equaled perceptions giving evidence that the banks were meeting their general requirements, and an even smaller number (ranging from 8 to 12 percent) that responded that in the area of reliability that their expectations exceeded perceptions.

6.5.4 Responsiveness Differences Between Consumer Expectations to Perceptions

Questions number ten through thirteen of the questionnaire deal with the responsiveness differences of consumer expectations compared to perceptions. Table 6.4 below illustrates the average differences between expectations versus the perceptions and presents the results of the t-Test for each of the questions in the area of responsiveness.

An examination of the responses in question number ten which states that customers should be told by the bank exactly when services will be provided indicates that perceptions do not meet expectations as reflected by a mean score of a positive mean difference of 0.271 (p-values <0.0001). As has been common in most of the questions, at the zero difference level, 57.2 percent of the respondents stated that perceptions exactly equaled expectations, while 27.8 percent indicated that services did not meet expectations. At the other extreme, 15.0 percent of the consumers stated that perceptions were higher than expectations on the subject of customers being told by the bank exactly when services will be provided.

Table 6.4 Reponsiveness Differences of Consumer Expectations to Perceptions
(Questions numbered as they appear in questionnaire instruments.)

10. Customers should be told by the bank exactly when services will be provided.
11. Employees in a bank should give prompt service.
12. Employees should always be willing to help customers.
13. Employees in a bank should never be too busy to respond to customer requests.

Average Differences on Questions

Difference	**Q10**		**Q11**		**Q12**		**Q13**	
D=E-P	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**#**
-6	0	0	0	0	0	0	1	0.183
-5	0	0	0	0	0	0	0	0
-4	0	0	1	0.183	0	0	1	0.183
-3	1	0.183	2	0.366	0	0	7	1.282
-2	16	2.930	12	2.194	7	1.284	33	6.044
-1	65	11.905	58	10.603	52	9.541	87	15.934
0	312	57.143	358	65.448	390	71.560	313	57.326
1	92	16.850	72	13.163	58	10.642	58	10.623
2	36	6.593	29	5.302	27	4.954	29	5.311
3	16	2.930	6	1.097	7	1.284	10	1.832
4	5	0.916	5	0.914	3	0.550	5	0.916
5	2	0.366	2	0.366	0	0	1	0.183
6	1	0.183	2	0.366	1	0.183	1	0.183

	Q10	**Q11**	**Q12**	**Q13**
Mean	0.271	0.179	0.156	-0.013
t-Value	5.827	4.114	4.358	-0.257
p-Value	<.0001	<.0001	<.0001	0.7971

That employees of the bank should give prompt service was the subject of question number eleven where a mean difference of a positive 0.179 (p-values

<0.0001) indicated that expectations exceeded perceptions. Even though expectations did not exceed perceptions overall, a zero difference level of 65.5 percent was noted.

Question number twelve had a positive mean difference of 0,156 (p-values <0.0001), indicating that perceptions did not meet expectations with regard to employees always being willing to help customers. On the other hand, at the zero difference level, 71.6 percent of the respondents stated that perceptions equaled expectations. However, 17.6 percent indicated that services did not meet expectations. At the other extreme, 10.8 percent of the consumers stated that perceptions exceeded expectations in the area of employees always being willing to help customers.

The mean difference in question thirteen was a negative 0.013 (p-values 0.7971) which indicated that overall expectations exceeded perceptions with regard to the employees in a bank should never be too busy to respond to customer requests. The range zero difference level for question thirteen was 57.3 percent where expectations exactly met perceptions with another 23.6 percent of the consumers indicated that expectations exceeded perceptions. Still there were another 19.1 percent of the respondents that were not satisfied that their expectations were met.

Four of the five responsiveness questions, (questions ten through twelve) noted that perceptions did not fully meet expectations, even though a majority of the respondents indicated that perceptions equaled expectations. In question number thirteen, services slightly exceeded expectations. While it appears in all five questions that community banks have been responsive to the consumers (ranging from 57 to 71 percent) in the areas of being told exactly when services will be provided, being given prompt service, being willing to help customers, and never being too busy to respond to customer requests, there is still a reasonably large segment (ranging from 17 to 24 percent) of the consumers that have not had their service expectations met.

6.5.5 Assurance Differences Between Consumer Expectations to Perceptions

Examining the assurance differences of consumer expectations compared to perceptions, questions numbered fourteen through seventeen were considered. Table 6.5 sets out the differences between expectations versus the perceptions. In all four of the assurance questions the differences in the positive mean indicates that the consumers' expectations were not fully satisfied. However, this does not imply that there is not a majority of the consumers who are satisfied that expectations meet perceptions.

The mean difference in question fourteen was a positive 0.273 (p-value <0.0001) indicating that perceptions failed to meet expectations with regard to the behavior of employees instilling customer confidence, even though the zero difference point indicated that 64.8 percent of the respondents felt that their expectations were exactly equal to their perceptions. A significant number of respondents totaling 23.1 percent indicated that actual service failed to meet their expectations, while 12.1 percent of the consumer respondents noted that perceptions exceeded their expectations with regard to bank employees being sympathetic to solving customer problems.

Question number fifteen had a positive mean difference of 0,328 (p-value <0.0001) indicating that perceptions did not meet expectations with regard to customers feeling safe in all their transactions. On the other hand, at the zero difference level, 71.8 percent of the respondents stated that perceptions equaled expectations. However, 23.3 percent indicated that service delivery did not meet expectations. At the other extreme, 4.9 percent of the consumers stated that perceptions exceeded expectations in the area of customers feeling safe in all their transactions.

That employees of the bank should consistently be courteous with customers was the topic of question number sixteen where a mean difference of a positive 0.157 (p-value <0.0001) indicated that perceptions did not meet expectations. Even though expectations did not exceed perceptions overall, a zero difference range of 73.7 percent of the consumers indicated that expectations exactly equaled perceptions. Respondents totaling 16.4 percent stated that service levels did not meet their expectations, and another 9.9 percent indicated that perceptions exceeded expectations with regard to the bank consistently being courteous with customers.

Question number seventeen revealed a mean difference of a positive 0.148 (p-value 0.0014), which would indicate that expectations were not met in the area of employees in a bank having the knowledge to answer customers' questions. Consumers at the zero difference level totaled 59.1 percent, meaning that perceptions equaled expectations precisely, however there were 23.6 percent of the respondents who indicated that their expectations were fully not met. A total of 17.3 percent of the consumers responded that their expectations exceeded perceptions.

Table 6.5 Assurance Differences of Consumer Expectations to Perceptions
(Questions numbered as they appear in questionnaire instruments.)

14. Behavior of employees should instill customer confidence.
15. Customers should feel safe in all their transactions.
16. Employees should consistently be courteous with customers.
17. Employees in a bank should have the knowledge to answer customers' questions.

Average Differences on Questions

Difference	**Q14**		**Q15**		**Q16**		**Q17**	
Range	#	%	#	%	#	%	#	#
-6	0	0	0	0	0	0	0	0
-5	0	0	0	0	0	0	0	0
-4	0	0	0	0	0	0	1	0.182
-3	1	0.183	0	0	2	0.366	3	0.547
-2	7	1.282	3	0.549	7	1.280	20	3.650
-1	58	10.623	22	4.029	45	8.227	71	12.956
0	354	64.835	392	71.795	403	73.675	324	59.124
1	70	12.821	75	13.736	54	9.872	80	14.599
2	32	5.861	40	7.326	26	4.753	34	6.204
3	15	2.747	8	1.465	3	0.548	8	1.460
4	3	0.549	3	0.549	2	0.366	4	0.730
5	3	0.549	2	0.366	2	0.366	1	0.182
6	3	0.549	1	0.183	3	0.548	2	0.365

	Q14	**Q15**	**Q16**	**Q17**
Mean	0.273	0.328	0.157	0.148
t-Value	5.987	8.765	4.039	3.222
p-Value	<.0001	<.0001	<.0001	0.0014

All four of the assurance questions noted that perceptions did not meet expectations (ranging from 15 to 23 percent), which would indicate that there are assurance issues for a substantial number of the responding consumers in the areas of assuring the customer relating to customer confidence, feeling safe in their transactions, receiving courteous service, and being able to get knowledgeable responses to their questions. However, a majority of the respondents (ranging from 59 to 71 percent) did state their expectations equaled perceptions, giving evidence that the banks were meeting the customers' general requirements, and an even smaller number (ranging from 4 to 16 percent) responded that in the area of assurance their expectations exceeded perceptions.

6.5.6 Empathy Differences Between Consumer Expectations to Perceptions

Questions number eighteen through twenty-two of the questionnaire deal with the empathy differences of consumer expectations compared to perceptions of consumer expectations. Table 6.6 illustrates the average differences between expectations versus the perceptions and further sets out the results of the t-Test for each of the questions.

The empathy element differences in the mean scores indicated that consumers felt that in four of the five questions their expectations were fully met with regard to getting individual attention, having convenient hours, receiving personal attention, and understanding their needs. In the remaining question there was an indication that their expectations were not met in the area of having the customer's best interests at heart.

The mean difference of a negative 0.002 (p-value 0.9635) indicated in question eighteen that consumers did feel their expectations exceeded perceptions with regard to expecting the employees of the bank to give professional service, At the zero difference point, 64.9 percent of the consumers felt that perceptions exactly met their expectations, and there was another 18.1 percent of the consumers that stated the service levels exceeded their expectations. The remaining 16.0 percent of the respondents indicated that their expectations were not met.

Question number nineteen reflected a mean difference of a negative 0.159 (p-value 0.0063) indicating that their expectations exceed perceptions with regard to operating hours being convenient. At the zero difference point of the range, 54.2 percent stated that perceptions met expectations. Another 29.2 percent responded that expectations were surpassed by the service delivered, however, it should be noted that 16.6 percent responded that services delivered did not exceed their expectations.

In examining the results obtained from question number twenty, a mean difference of a negative 0.140 (p-value 0.0015) indicating that their expectations exceed perceptions with regard to giving customers personal attention. At the zero difference point, 60.1 percent stated that perceptions exactly met expectations. Respondents indicated that expectations exceeded perceived service by 25.9 percent, however, it should be noted that 14.0 percent responded that their expectations were not met in the area of giving customers personal attention.

In question twenty-one the mean difference of a positive 0.300 (p-value <0.0001) gave evidence that the consumers did not feel that that the expectations were met with regard to the bank having their best interests at heart. It could be noted at the zero difference point 60.6 percent of the respondents indicated that perceptions exactly met expectations, however, it is equally significant that 26.6 percent of the respondents felt that their expectations were not met, and another 12.8 percent indicating that the service delivered exceeded their expectations.

Table 6.6 Empathy Differences of Consumer Expectations to Perceptions
(Questions numbered as they appear in questionnaire instruments.)

18. A bank should give customers individual attention.

19. Operating hours should be convenient to all their customers.
20. Employees of a bank should give customers personal attention.
21. Bank should have a customer's best interests at heart.
22. Employees should understand specific customer needs.

Average Differences on Questions

Difference	**Q18**		**Q19**		**Q20**		**Q21**		**Q22**	
D=E-P	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**
-6	1	0.183	1	0.182	1	0.184	0	0	0	0
-5	0	0	2	0.365	0	0	0	0	0	0
-4	0	0	1	0.182	0	0	0	0	0	0
-3	4	0.731	20	3.650	7	1.287	5	0.916	13	2.377
-2	19	3.473	43	7.847	32	5.822	14	2.564	37	6.764
-1	76	13.894	93	16.971	101	18.566	51	9.341	103	18.830
0	355	64.899	297	54.197	327	60.110	331	60.623	305	55.759
1	67	12.249	50	9.124	52	9.559	88	16.117	62	11.335
2	16	2.925	20	3.650	14	2.574	32	5.861	18	3.291
3	6	1.097	9	1.642	6	1.103	13	2.381	5	0.914
4	2	0.366	7	1.277	3	0.551	2	0.366	0	0
5	0	0	3	0.547	0	0	1	0.183	1	0.183
6	1	0.183	2	0.365	1	0.184	9	1.648	3	0.548

	Q18	**Q19**	**Q20**	**Q21**	**Q22**
Mean	-0.002	-0.159	-0.140	0.300	-0.146
t-Value	-0.046	-2.744	-3.199	5.733	-3.092
p-Value	0.9635	0.0063	0.0015	<.0001	0.0021

Question number twenty-two indicated a mean difference of a negative 0.146 (p-value 0.0021) noting that their expectations exceed perceptions with regard to employees understanding specific needs. At the zero difference point, 55.7 percent stated that perceptions exactly met expectations. Although another 28.0 percent responded that the services delivered were well above their expectations, there was still 16.3 percent who responded that their expectations were not met in the area of employees understanding their specific needs.

The empathy component of five items resulted in four items (individual attention, convenient operating hours, personal attention, and customer needs) where the customers' experiences exceeded their expectations. The customers expressed a level of disappointment in the remaining item (customers best interests). It should be noted that a large percentage of the sampled customers in all five questions (ranging from 54 to 65 percent) experienced realities (perceptions) that exactly met their expectations of the tangible items. For those who did not express this exact match of reality with expectations there was evidence that the banks exceeded expectations (ranging from 12 to 24 percent) with respect to the customer empathy items, except there was a level of disappointment with the bank having the customers best interest at heart. The banks clearly have demonstrated expertise at producing the appealing aspects of empathy. However, customers have indicated that the banks have not yet mastered the element of having the customers best interests at heart (ranging from 13 to 25 percent), which could be a major factor in the ability of a bank to retain customers.

6.5.7 Validating the Modified SERVQUAL Instrument

To ensure validity consistency to the study, the questions in the questionnaire instrument were grouped into five sections or elements based upon the established research by Parasuraman, et al (1991b) who tested the questions on a number of institutions for reliability and validity. These five groupings were tested against Section 3 of the questionnaire. As the results revealed in Table 6.7 below, there was little statistical significance between expectations and perceptions. Therefore, it was this researcher's ultimate plan to use the five factors or elements commonly known as the Modified SERVQUAL Elements. These elements or factors are tangibles, reliability, responsiveness, assurance, and empathy. As pointed out earlier in this study, the five elements or factors were a result of reducing the original eleven elements into more statistically significant measurable factors or elements. The significant differences become obvious when each of the five elements are examined and compared to Section 3 of the Questionnaire (attached as Appendix 1). Section 3 asks the respondents to assign point values to the five questions set out below based upon their opinion as to the level of importance of each of the five questions, the total of which must equal 100 points. They could assign all of the points to one question or they could assign any number of points from zero up, as long as the total value did not exceed 100 points in the composite. The questions were:

1. The appearance of the bank's physical facilities, equipment, personnel, and communication materials.
2. The bank's ability to perform the promised service dependably and accurately.
3. The bank's willingness to help customers and provide prompt service.
4. The knowledge and courtesy of the bank's employees and their ability to convey trust and confidence.
5. The caring, individualized attention the bank provides its customers.

The five questions above were designed to test the validity of the responses. In Table 6.7, the correlation coefficient is hypothesized to equal zero. The correlation, actual count, the Z-Value, the P-Value, the Lower 95%, and the Upper

Table 6.7 Validity of Expected Elements Versus Section 3 Questions

Element	Correlation	Count	Z-Value	P-Value	95% Lower	95% Higher
Tangible	.193	539	4.534	<.0001	.111	.273
Reliability	.064	539	1.494	.1353	-.020	.148
Responsiveness	.013	534	.298	.7656	-.072	.098
Assurance	-.022	537	-.518	.6043	-.107	.062

Empathy	.044	536	1.015	.3101	-.041	.128

95% are set-out. There is correlation in all five of the elements compared across Section 3 questions, which shows consistency to the answering of questions and the assigning of values or points to questions which could be correlated. The results indicate that while expectations are very high, perceptions are also high, but not as high as expectations. This would give rise to the fact that there must be some degree of disapproval in the areas of reliability, responsiveness, and assurance. While the disapproval appears to be nominal, it does have some impact on service quality and should be evaluated.

6.6 Implications of Hypothesis 1

The basis for this study revolved around three specific antecedents—perceived quality, perceived value, and customer expectations. The study strongly reinforced and confirmed the importance of the three antecedents.

There is a commonality derived from the research on customer satisfaction that would indicate a close, in fact, an almost inseparable bond to the elements of service quality. Even though they have separate and distinct definitions, research in one area impacts the other.

The importance and usefulness of this study lies in the tying together customer expectations with customer perceptions utilizing a modified version of SERVQUAL (Parasuraman, et al; 1988) questions to finally determine the importance of service quality in the consumer's decision process of bank selection. For the first time, a group of bank customers expressed the importance of service quality in the selection of a bank through a value system of questions involving expectations compared directly to customer perceptions.

The original 11 elements of SERVQUAL did not provide significance in the evaluation of this hypothesis. . Therefore, it required the reduction in the number of elements commonly known as the Modified SERVQUAL Elements. These five elements are tangibles, reliability, responsiveness, assurance, and empathy. To properly utilize the SERVQUAL modified document to adequately test this hypothesis, it was necessary to evaluate the expectations versus the perceptions utilizing the original 22-question grouped into the five elements.

In light of the reported literature, there was no specific study that has examined consumer expectations versus perceptions of actual service delivery in community banking within the United States of America. Therefore, this study undertook the task of empirically evaluating consumer expectations versus perceptions of actual service delivery within community banks within the United States of America.

Historically, even the process of comparing consumer expectations to consumer perceptions has only been considered within the past twenty-five years. While a number of studies (Anderson, et al, 1976; Churchhill and Suprenant, 1982; Gronroos,1982; Lewis and Booms, 1983) were the pioneers in recognizing the importance of selection as a priority for obtaining and retaining customers, none of them empirically established quantitative values to the measurement of customer satisfaction in terms of expectations versus perceptions in the United States of America banking industry. Unlike other research, this study extended the knowledge by specifically dealing with actuality versus attitude and providing empirical results.

Unlike, several researchers who confirmed the view that satisfaction by the customer was very similar to a favorable customer attitude, the study confirmed the relationship between perception and actuality as opposed to the estimated similarity.

Over the next five years a number of studies (Parasuraman, et al, 1985 & 1988; Bitner, 1990; Cronin and Taylor, 1992; and Howcroft, 1992) examined and measured customer perceptions versus customer evaluations of services provided. While the importance of the relationship between perceptions and evaluations had been well established in numerous fields that established excellent methodology, no U. S. A. banking studies had been utilized until the current study established this important relationship.

At this same time banking was changing, where banks once relied upon products to make their profit margin in a highly regulated industry, and the customers basically were on the sidelines, now banks are driven by customers who demand service quality. This study extended what several researchers (Stone, 1995; and Berry et al, 1988) observed that quality of service is very important in separating competing businesses in banking as well as in the retail sector. Reinforcing this important research, there have been several researchers who identify service quality as a primary means of providing a competitive advantage to banks (Soteriou and Stavrinides,1997; Morrall, 1994; Hall, 1995). In some specific studies in four U. S. banks, found that the implementation of service quality at First Chicago Bank, Compass Bank, Marquette Bancshares, Inc., and Wachovia Bank gave them a substantial advantage over their competitors. Once banks implemented service quality, their profitability was also noticeably improved.

Therefore, the present study obtained some very pertinent and specific data to support the hypothesis being advanced concerning the importance of measuring consumer expectations against consumer perceptions specifically in community banks within the southern United States. No other studies have specifically made such a comparison between consumer expectations versus their perception of the actual delivery of such services in the banking industry, and more specifically in community banks within the United States of America.

6.7 Testing Hypothesis 2

Hypothesis number two addresses the issue concerning the importance of service quality in relation to four other factors deemed significant in the selection of a bank that was gleaned from a review of the existing literature. While the literature in both Chapter 3 and Chapter 4 of this study reports numerous studies relating to service quality, location, and other selection options, the literature review did not uncover a specific study relating to comparing which element was most important in influencing selection—service quality or location. This study is unique and adds to the body of knowledge by quantatively testing a large sample and establishing that service quality is the most significant factor in the selection of a bank when compared to other factors, such as location, advertising, and recommendation of others.

As is obvious from the above, numerous studies have made reference to the various factors, but none have tested some of the most important reasons for selecting a bank. Therefore the five factors needed to be tested against each other to determine their importance in the selection process. To provide respondents with an unbiased choice, five factors including service quality and location were listed alphabetically for their choosing. Respondents were asked to rank each of the five elements.

The second hypothesis was, therefore:

H_2 : Service quality is more important in the selection of a bank by a customer than other factors, such as location, advertising, recommendation of others, etc.

The null hypothesis for H_2 is:

H_{02} : There is no evidence to indicate that service quality is more important in the selection of a bank by a customer than other factors, such as location, advertising, recommendation of others, etc.

6.8 Analysis for Testing Hypothesis 2

Respondents to the questionnaire were asked to rank from one to five with one being the most influential reason for selecting a bank and five being the least influential. The choices available were advertising, location, recommendation from a friend, service charges/fees, and service quality. Table 6.8 graphically presents the results displayed by the respondents. Service quality was selected as the number one reason for selecting a bank by the respondents. The mean for service quality was 2.068 and the standard deviation was 1.088. Following closely in second rank was location that had a mean of 2.207 and a standard deviation of 1.149. Service charges/fees were the third most frequently ranked reason for selecting the bank with a mean of 2.837 and a standard deviation of 1.206. Recommendation from friend was the fourth ranked reason given by respondents for choosing the bank, and it reflected a mean of 3.315 and a standard deviation of 1.214. Last rank was given to advertising with a mean of 4.484 and a standard deviation of 1.301. In addition to examining the basic reasons for selecting a bank, it was determined that it might be significant to determine the impact of some of the issues such as gender, age, income, and education.

Table 6.8 Ranking Reasons for Selecting the Bank

	Rank	**Mean**	**Std. Dev.**
Advertising	5	4.484	1.301
Location	2	2.207	1.149
Recommendation from Friend	4	3.315	1.214
Service Charges/Fees	3	2.837	1.206
Service Quality	1	2.068	1.088

Additional issues tested to determine their impact on the reasons for selecting the bank were gender, age, income, and education. Each of these items was tested to determine their impact, if any on the reasons for selecting the bank. Therefore, set out below is an analysis for the items' impact on advertising, location, recommendation from friend, service charges/fees, and service quality.

6.8.1 Advertising

Advertising had an average mean score of 4.484 (ranked last among the five choices). The frequency distribution percentage rankings for advertising as selected by the respondents were as follows:

Rank #1 = 4.5 percent
Rank #2 = 3.3 percent

Rank #3 = 5.0 percent
Rank #4 = 17.6 percent
Rank #5 = 69.6 percent

From the above percentages it becomes rather obvious that few respondents felt that advertising was the most significant factor in their selection of a bank. It should be noted that one can not draw from this research that advertising is not important only that it was not a major factor among the respondents in the selection of a bank.

ANOVA testing was utilized on each of the items (gender, age, income, and education) in an attempt to determine their impact, if any on advertising. Additionally, we utilized a Means Table to show the direct numeric impact. Gender showed no significant impact on advertising as shown in the ANOVA Table 6.13. The gender p-value was 0.8638 that was above the statistically significant break point of 0.005 indicating no significance. Further, a mean of 4.497 for males and a 4.475 for females that indicates total closeness or no significant numeric difference.

Testing age impact on advertising also demonstrated no significant impact on advertising as indicated in Table 6.9. The p-value for age impact on advertising was 0.0594 well above the statistical break point of 0.005 indicating a lack of significance. Further, the mean deviation between the age groups displayed no significance on advertising.

Examining the effect of income on advertising indicates a p-value of 0.6513 that is substantially above the break point of 0.005 to indicate no significance on advertising. Examining the mean differences between the five income classes shows no significant differences with an even distribution.

The last category measured against advertising was that of education. There was no significant impact on advertising because of education, which displayed a p-value of 0.6999 that was well above the statistical significant point of 0.005. There was no mean separation between the five categories used in education.

Table 6.9 ANOVA Table for Advertising

CATEGORY	SUM OF SQUARES	MEAN SQUARE	F-VALUE	P=VALUE	LAMBDA	POWER
Gender	.050	.050	.029	0.8638	.029	.053
Age	15.280	3.820	2.288	0.0594	9.152	.662
Income	2.654	.663	,616	0.6513	2.464	.198
Education	3.730	.933	.549	0.6999	2.196	.180

6.8.2 Location

An average mean score overall for location was 2.207 (ranked second among the five choices). Rankings for the frequency distribution percentage for location as selected by the respondents were as follows:

Rank #1 = 35.6 percent
Rank #2 = 26.1 percent
Rank #3 = 24.7 percent
Rank #4 = 9.4 percent
Rank #5 = 4.2 percent

As indicated, respondents noted that location of the bank's facility was a very significant factor in their selection of a bank, second only to service quality. The respondents have ranked location and service quality high in a number of other studies so it was not surprising to see its importance high.

In testing location with ANOVA results in the areas of gender, age, income, and education, it was noted that none of the items had a significant impact individually on determining location as indicated in Table 6.10. A detailed discussion on the four areas is set out below.

Examining the effect of gender on location indicates a p-value of 0..8590 that is substantially above the statistical significance level of 0.005 that indicates no significance on location. Examining the mean differences between male and female shows no significant differences with an even distribution.

The category of age was measured against location. There was no significant impact on location because of age, which displayed a p-value of 0.0905 that was well above the statistical significant point of 0.005. There was no mean separation between the five categories used in age.

Examining the effect of income on location indicates a p-value of 0.1693 that is substantially above the statistical point of 0.005 to indicate no significance on location. Examining the mean differences between the five income classes shows no significant differences with an even distribution.

Table 6.10 ANOVA Table for Location

CATEGORY	SUM OF SQUARES	MEAN SQUARE	F-VALUE	P=VALUE	LAMBDA	POWER
Gender	.042	.042	.032	.8590	.032	.054
Age	10,571	2.643	2.022	.0905	8.086	.598
Income	8.420	2.105	1.616	.1693	6.465	.489
Education	3.914	.979	.740	.5654	2.958	.233

The last category measured against location was that of education. There was no significant impact on advertising because of education, which displayed a p-value of 0.5654 that was well above the statistical significant point of 0.005. There was no mean separation between the five categories used in education.

6.8.3 Recommendation from a Friend

Recommendation from a friend had an average mean score of 3.315 and its rankings for the frequency distribution percentage by respondents (ranked fourth among the five choices) were as follows:

Rank #1 = 12.0 percent
Rank #2 = 13.0 percent
Rank #3 = 20.3 percent
Rank #4 = 41.0 percent
Rank #5 = 13.7 percent

As indicated above, respondents recorded an almost even distribution in ranks one, two, and five for recommendation by a friend which may explain why it did not rank higher than fourth in their reason for selection of a bank. The only surprise in this outcome is that many bankers believe that recommendation from others is a high reason for selection of a bank.

The value of recommendation from friends was measured and evaluated ANOVA testing was utilized on each of the items (gender, age, income, and education) in an attempt to determine their impact, if any on recommendation from friends. Additionally, we utilized a Means Table to show the direct numeric impact. Gender showed no significant impact on advertising as shown in Table 6.11. The gender p-value was 0.5820 that was above the statistically significant break point of 0.005 indicating no significance. Further, a mean of 3.283 for males and a 3.350 for females that indicates total closeness or no significant numeric difference.

Examining the effect of age on recommendation from friends indicates a p-value of 0.8634 that is substantially above the statistical point of 0.005 to indicate no significance on recommendation from friends. Examining the mean differences between the five age classes shows no significant differences with an even distribution.

The effect of income on recommendation from friends indicates a p-value of 0.8888 that is substantially above the statistical point of 0.005 to indicate no significance on recommendation from friends. Examining the mean differences between the five income classes shows no significant differences with an even distribution.

Table 6.11 ANOVA Table for Recommendation from Friends

CATEGORY	SUM OF SQUARES	MEAN SQUARE	F-VALUE	P=VALUE	LAMBDA	POWER
Gender	.449	.449	.304	.5820	.304	.084
Age	1.913	.478	.322	.8634	1.287	.121
Income	1.685	.421	.283	.8888	1.133	.112
Education	9.235	2.309	1.572	.1809	6.289	.476

Examining the effect of education on recommendation from friends indicates a p-value of 0.1809 that is substantially above the statistical point of 0.005 to indicate no significance on recommendation from friends. Examining the mean differences between the five education classes shows no significant differences with an even distribution.

6.8.4 Service Charges/Fees

The average mean score overall for service charges/fees was 2.837 (ranked third among the five choices). Rankings for the frequency distribution percentage for service charges/fees as selected by the respondents were as follows:

Rank #1 = 16.3 percent

Rank #2 = 24.6 percent
Rank #3 = 26.8 percent
Rank #4 = 23.8 percent
Rank #5 = 8.5 percent

As indicated, respondents noted that service charges/fees of the bank's facility was a significant factor in their selection of a bank, ranking third. Even distribution among ranks two, three, and four were near even. It appears significant that service quality and location impact the selection of a bank more than service charges/fees.

The impact of service charge/fees on selection of a bank was measured against gender, age, income, and education and the ANOVA results are set out in Table 6.12 below. ANOVA testing was utilized on each of the items (gender, age, income, and education) in an attempt to determine their impact, if any on fees. Additionally, we utilized a Means Table to show the direct numeric impact. Gender showed no significant impact on fees as shown in the ANOVA Table 6.16 below. The gender p-value was 0.1624 that was above the statistically significant break point of 0.005 indicating no significance. Further, a mean of 2.914 for males and a 2.745 for females that indicates total closeness or no significant numeric difference.

Testing age impact on fees also demonstrated no significant impact on fees as indicated in Table 6.16. The p-value for age impact on fees was 0.1512 well above the statistical break point of 0.005 indicating a lack of significance. Further, the mean deviation between the age groups displayed no significance on fees

Examining the effect of income on fees indicates a p-value of 0.0248 that is substantially above the break point of 0.005 to indicate no significance on fees.

Examining the mean differences between the five income classes shows no significant differences with an even distribution.

The last category measured against fees was that of education. There was no significant impact on fees because of education, which displayed a p-value of 0.0965 that was well above the statistical significant point of 0.005. There was no mean separation between the five categories used in education.

Table 6.12 ANOVA Table for Fees

CATEGORY	SUM OF SQUARES	MEAN SQUARE	F-VALUE	P=VALUE	LAMBDA	POWER
Gender	2.825	2.825	1.959	.1624	1.959	.271
Age	9.707	2.427	1.691	.1512	6.764	.510
Income	16.370	4.092	2.824	.0248	11.297	.771
Education	11.345	2.836	1.982	.0965	7.928	.588

6.8.5 Service Quality

The average mean score overall for service quality was 2.068 (ranked first among the five choices). Rankings for the frequency distribution percentage for service quality as selected by the respondents were as follows:

Rank #1 = 38.0 percent
Rank #2 = 31.2 percent
Rank #3 = 20.6 percent
Rank #4 = 6.3 percent
Rank #5 = 3.9 percent

As indicated, respondents noted that service quality of the bank's facility was the most significant factor in their selection of a bank. The respondents have ranked location and service quality high in a number of other studies so it was not surprising to see its importance high.

Research Findings

While service quality led in the reasons for customers selecting a bank, gender, age, income, and education were not significant except for the one category of income in the $25,000 to under $50,000 income level. The impact of gender on service quality and the ANOVA results are set out in Table 6.17. Additionally, we utilized a Means Table to show the direct numeric impact. Gender showed no significant impact on fees as shown in the ANOVA Table 6.13. The gender p-value was 0.5633 that was above the statistically significant break point of 0.005 indicating no significance. Further, a mean of 2.039 for males and a 2.101 for females that indicates total closeness or no significant numeric difference.

Examining the effect of age on service quality indicates a p-value of 0.0710 that is substantially above the statistical point of 0.005 to indicate no significance on service quality. Examining the mean differences between the five age classes shows no significant differences with an even distribution.

The effect of income on service quality indicates a p-value of <0.0001 that is statistically significant as it relates to service quality. Examining the mean differences between the five income classes shows significance in the $25,000 to under $50,000 income level. None of the other four categories showed any level of significance.

Examining the effect of education on service quality indicates a p-value of 0.2936 that is substantially above the statistical point of 0.005 to indicate no significance on service quality. Examining the mean differences between the five education classes shows no significant differences with an even distribution.

Table 6.13 ANOVA Table for Service Quality

CATEGORY	SUM OF SQUARES	MEAN SQUARE	F-VALUE	P=VALUE	LAMBDA	POWER
Gender	.398	.398	.335	.5633	.335	.087
Age	10.218	2.555	2.176	.0710	8.703	.636
Income	30.584	7.646	6.926	>.0001	27.705	.997
Education	5.873	1.468	1.239	.2936	4.957	.380

6.9 Implications of Hypothesis 2

This study through empirical evidence, took service quality as an attitude to another level in that it made the selection a process of the attitude. Unlike Churchill and Suprenant (1982) or Lewis and Booms (1983) who alluded to satisfaction being similar to attitude the evidence uncovered in this study revealed that service quality is more than an attitude that could waiver with a change of attitude. Service quality is the predominant factor in the selection of a community bank in the United States of America.

Further the literature generalized that customers have a difficult time in attempting to determine service quality based upon objectivity and as a result need some structured effort on the part of the service provider to plan the service function (Shostack, 1985). Boulding, et al (1993) noted that service quality and customer satisfaction were treated as one and the same by the business press. Through the data generated in the study it has further proven that the service provider does need some structured effort to plan the service function.

While Milligan (1995) noted that it should be obvious that customer loyalty can turn on some very small dollar amounts, this study established that the element of service quality was the primary driver in bank selection.

Research Findings

Until this study, most of the previous literature (Anderson and Cox, 1976; Dupuy and Kehoe, 1976) postured that location was consistently cited as the most important criterion in bank selection. A few studies were conducted in the USA during the 1980s, for example Buerger and Ulrich (1986) noted in a survey of 475 small businesses in Pennsylvania that price was the most important criteria for these businesses to select a bank, but had no other significant findings.

This study using a rather large and reliable sample determined that service quality was the number one reason customers select banks in the southern portion of the United States.

6.10 Testing Hypothesis 3

The third hypothesis relates to bankers' perceptions of what their customers expect from their institutions in terms of service quality. As noted in Chapter 4 of this study, there is a general void in the literature in comparing a banker's perception of what the customer expects. This issue is important from the standpoint the banker anticipating what the customer expects in terms of delivered service. Likewise, it could be a serious problem for a bank, if it's staff made the assumption that they knew best what services the customer sought, when in fact, they drew the wrong conclusion. This would likely cause the customer to seek a bank that would provide the desired services.

It has generally been held, although there was no evidence to back up the supposition, that bankers tended to provide customers with services that they deemed best for the customer, when in actuality, they did not know what the customer expected.

Research Findings

A new body of knowledge has been established through the data revealed in this study, since there is no record of a study of record comparing the bankers' perceptions of the customers' expectations, and further, the identification from the study's data that bankers in community banks tended to know the services that customers expected which would prove the null hypothesis. Hence the theory advanced would be that there is very little difference in the bankers' perceptions of what the customer expects which would lead to providing services that satisfied the customer.

Therefore, the hypothesis for H_3 is:

> H_3 : Bankers tend to indicate that they know what services are best for customers. Hence, bankers' perceptions of customers' expectations will be lower than expectations by the customer.

The null hypothesis for H_3 is:

> **H_{o3} : There is no evidence to indicate bankers' perceptions of customers' expectations will be lower than expectations by the customer.**

6.11Analysis for Testing Hypothesis 3

With the total void in the literature of bankers' perceptions of consumers' expectations of service delivery, it was interesting to note that in only five out of the twenty-two questions (22.7 percent) did the mean deviations of the bankers' perceptions differ materially (materiality being determined to be 0.250 mean difference or greater) from the consumers' expectations. One of the five questions was "a bank should have state-of-the-art technology" that had a 0.783 mean difference with the consumer expecting more. A second question, "the physical facilities of a bank should be visually appealing" had a 0.340 mean difference with the consumer expecting more. The third question, “customers should be told by the bank exactly when services will be provided” had a mean difference of .301 with the consumer expecting more. “Employees in a bank should have the knowledge to answer customer questions” was the fourth question with a significant difference indicated by a mean difference of 0.256 with the consumer expecting more. The fifth and last question with a significant mean difference was ” a bank should have a customer’s best interests at heart” with a mean difference of 0.335 with the consumer expecting more. Each of these five questions should be examined for significant differences between what bankers perceive the customer wants and what the customer actually wants.

6.11.1 Tangible Elements of Consumer vs. Banker Expectations

The tangible elements relate more to the physical aspects of the bank such as technology and materials. State-of-the-art technology is one category in which the banker had the most significant difference of opinion about the consumer’s perceptions with a mean difference of 0.783, which would imply that the bankers did not think the consumers would place as much value on technology. This could be the result of the technology era in which the entire nation is looking for the latest and most up to date technology. Additionally, the consumer felt more strongly that the physical facilities should be physically appealing where the mean difference between consumer expectations and banker expectations differed by 0.340, which notes the importance of appearance to the customer. To be able to provide service delivery that meets the consumer’s expectations, it is important that banks know the importance of the physical aspects in attracting and retaining customers.

Table 6.14 Tangible Elements of Consumer vs. Banker Expectations in the Delivery of Service Quality			
Questions	**Consumer**	**Banker**	**Net**
	Mean	**Mean**	**Difference**
1. A bank should have state-of-the-art technology.	6.339	5.556	0.783
2. The physical facilities of a bank should be visually appealing	6.007	5.667	0.340
3. Employees of a bank should be professional.	6.702	6.556	0.146
4. The materials in a bank should be visually appealing.	5.996	5.833	0.163

The professionalism of the bank employees had only a nominal mean difference of 0.146, which reflects basic agreement between banker and consumer. The last tangible question was one relating to the appearance of the bank's materials setting out the bank's products and one in which there was only nominal difference between consumer and banker with a 0.163 mean difference.

Tangible elements as noted in Table 6.14 and as set out in the discussion above were mixed in their results as to mean differences. The implications of these differences will be discussed more fully in the conclusions chapter of this study, but it should be noted that the questions with significant differences should demand further bank attention.

6.11.2 Reliability Elements of Consumer vs. Banker Expectations

The reliability elements relate in general to delivery of service in a timely manner, error-free records, and being empathic to consumer problems. A unique aspect to the reliability elements was shown by the value bankers perceived the consumers placed on them as noted in Table 6.15. In four out of the five questions, the bankers' expectations of what the consumer expected exceed those of the consumer, which would imply that the bankers realized the importance of reliability in satisfying the consumer. That a bank should deliver on promises in a timely manner was evidenced by a mean difference of a negative 0.182 which would imply that bankers felt that the consumer expected more than they indicated. Another issue was the question that the banker should be sympathetic to solving customer problems which noted a mean difference of a negative 0.092 which would indicate that bankers felt that the consumer expected more than indicated by the consumer.

Table 6.15 Reliability Elements of Consumer vs. Banker Expectations in the Delivery of Service Quality			
Questions	**Consumer**	**Banker**	**Net**
	Mean	**Mean**	**Difference**
5. A bank should deliver on promises in a timely manner.	6.762	6.944	-0.182
6. The employees of a bank should be sympathetic to solving customer problems.	6.630	6.722	-0.092
7. The services of a bank should be performed right the first time.	6.643	6.667	-0.240
8. A bank should deliver their services on time	6.736	6.778	-0.042
9. The bank should insist on error-free records.	6.649	6.444	0.205

Bankers also placed more importance on the bank performing services right the first time than did the consumer with a mean difference of a negative 0.024. To the question that the bank should deliver its services on time, once again, the bankers responded that the issue would be more important than the consumer felt important with a negative mean difference of 0.042. The only question in the area reliability in which the banker did not have a higher expectation than the consumer was that the bank should insist on error-free records where there was a mean difference of 0.205 with the consumer expecting more. Something of substantial significance is the high mean values of both consumer and banker.

6.11.3 Responsiveness Elements of Consumer vs. Banker Expectations

Responsiveness relates reacting to customer needs such as prompt service, helpfulness in meeting consumer needs, responding to consumer requests as noted in Table 6.16. Bankers failed to acknowledge the importance of telling the customer exactly when the services will be provided as evidenced by the significant mean difference of 0.301, implying that the consumer placed greater importance on this issue than the banker. At the other extreme, Bankers placed more importance in what consumers expected regarding the question of employees never being too busy to respond to customers' requests with a negative mean difference of 0.052. With regard to the question of employees giving prompt service, consumers' expectations were slightly higher than what bankers felt the customer would expect with a mean difference of 0.053. Only a nominal mean difference of 0.052 of consumers having a higher expectation than bankers with regard to the question of employees should never be too busy to help customers. Only one of the four questions manifested a significant difference in consumer expectations and banker anticipation of consumer expectations.

Table 6.16 Responsiveness Elements of Consumer vs. Banker Expectations in the Delivery of Service Quality			
Questions	**Consumer**	**Banker**	**Net**
	Mean	**Mean**	**Difference**
10. Customers should be told by the bank exactly when the services will be provided	6.579	6.278	0.301
11. Employees in a bank should give prompt service.	6.664	6.611	0.530
12. A bank's employees should always be willing to help customers.	6.800	6.722	0.078
13. Employees in a bank should never be too busy to respond to customers' requests.	6.448	6.500	-0.052

6.11.4 Assurance Elements of Consumer vs. Banker Expectations

Research Findings

The assurance elements relate to providing consumers with a degree of comfort in the areas of making a customer feel safe in their banking transactions, in their courteous treatment of customers, and knowledge sufficient to answer consumer questions as reflected in Table 6.17. In three of the four questions, there was no significant difference between consumer and banker expectations. Looking at the first of the three questions, the issue was the behavior of the employees should instill confidence in the customer whereby the mean difference was 0.038 showing a slight difference between customer and banker expectations. The second of the questions relate to customers feeling safe in their transactions whereby customer expectations exceed bankers by a mean difference of 0.148. The third question with nominal difference stated that the bank employees should consistently

Table 6.17 Assurance Elements of Consumer vs. Banker Expectations in the Delivery of Service Quality			
Questions	**Consumer**	**Banker**	**Net**
	Mean	**Mean**	**Difference**
14. The behavior of employees in banks should instill confidence in customers	6.705	6.667	0.038
15. Customers of a bank should feel safe in all their transactions	6.870	6.722	0.148
16. The bank's employees should consistently be courteous with customers.	6.783	6.722	0.061
17. Employees in a bank should have the knowledge to answer customers' questions.	6.534	6.278	0.256

be courteous with customers, and there was a nominal difference of 0.061 with the consumer expectations exceeding that of the bankers. A significant difference was revealed in the question relating to employees having the knowledge to answer customers' questions in which there was a mean difference of 0.256 indicating that the consumer had higher expectations.

6.11.5 Empathy Elements of Consumer vs. Banker Expectations

The elements of empathy as reflected in Table 6.18 relate to giving the customer individual attention, convenient hours to visit the bank, understanding customer needs, and having the customers' best interests at heart. Three questions of the five had no significant mean difference between consumer and banker. The first of the three questions related to giving customers individual attention and it revealed a nominal mean difference of 0.005 with the slight difference being consumer expectation exceeding that of the bankers. Second question revealed a net insignificant consumer difference of 0.062 in the issue of the operating hours of a bank being convenient to all their customers. The third question related to employees of a bank giving their customers personal attention whereby the mean difference was significant at 0.030 with the consumer expectations slightly exceeding those of the bankers. The only question whereby there was a significant difference between consumer expectations and what bankers think customers expect related to the bank having the customer's best interests at heart with a significant difference of 0,335 showing the consumer had higher expectations.

Table 6.18 Empathy Elements of Consumer vs. Banker Expectations in the Delivery of Service Quality			
Questions	**Consumer**	**Banker**	**Net**
	Mean	**Mean**	**Difference**
18. A bank should give customers individual attention	6.534	6.529	0.005
19. The operating hours of a bank should be convenient to all their customers	6.242	5.622	0.062
20. Employees of a bank should give their customers personal attention	6.419	6.389	0.030
21. A bank should have a customer's best interests at heart	6.613	6.278	0.335
22. Bank employees should understand the specific needs of their customers	6.345	6.556	-0.211

Interestingly, the last question concerning bank employees understanding the specific needs of the customers revealed a net difference of a negative 0,211 indicating that bankers perceived that the customer would have a higher expectation.

After evaluation the five elements comparing consumer expectations and banker expectations, the data did not provide specific sufficient insight as to why the bankers' perceptions of consumers' expectations of service quality delivery were so close, it is a likely possibility that community bankers are more aware of service delivery expectations than the much larger banking organizations.

The most significant finding in relation to bankers' perceptions of service delivery expectations of consumers was the fact 77.3 percent of the responses to the questions indicated a match of bankers' perceptions with consumers' expectations. Since much of the early literature indicated much consumer displeasure with service quality delivery, it bore significant value to the recent emphasis by community banks in America to deliver quality service.

6.12 Implications for Hypothesis 3

A new body of knowledge has been established through the data revealed in this study, since there is no record of a study of record comparing the bankers' perceptions of the customers' expectations, and further, the identification from the study's data that bankers in community banks tended to know the services that customers expected which would prove the null hypothesis. Hence the theory advanced would be that there is very little difference in the bankers' perceptions of what the customer expects which would lead to providing services that satisfied the customer.

6.13 Testing Hypothesis 4

The fourth hypothesis addresses the issue of service quality satisfaction being related to outcomes being equal to or greater than expectations by the bank customer. At issue is will outcomes equal or exceed expectations? The literature addresses each of these issues, but does not make a definitive conclusion concerning this issue.

Therefore, the hypothesis for H_4 is:

> H_4 : Satisfactory service quality will tend to be associated with outcomes equal to or above expectations.

The null hypothesis for H_4 is:

> **H_{04} : There is no evidence that satisfactory service quality will tend to be associated with outcomes equal to or above expectations.**

6.14 Analysis for Testing Hypothesis 4

A mean comparison examined the differences in the mean and percentage of consumer responses in total to the expectations against the mean and percentage of consumer responses to the perceptions in total (See Table 6.19 below). The results indicated that in each of the levels of agreement, with the exception of level 7 known as “strongly agree”, the perceptions of the service or outcomes exceeded expectations. Interestingly, there was a net numeric difference of five respondents between level 7 “strongly agree” and the remaining six levels, which would lead

6.19 Differences Between Averages of Perceptions and Expectations in Service Quality (D=E-P)

	Expectations		**Perceptions**		**Differences**	
Levels of Agreement	**#**	**%**	**#**	**%**	**#**	**%**
(7) Strongly Agree	381	68.9	348	63.4	-33	-5.5
(6)	111	20.1	122	22.3	+11	+2.2
(5)	45	8.1	53	9.8	+8	+1.7
(4)	14	2.5	16	2.8	+2	+0.3
(3)	1	0.1	6	1.0	+5	+0.9
(2)	1	0.1	2	0.3	+1	+0.2
(1) Strongly Disagree	1	0.2	2	0.4	+1	+0.2

one to say that perceptions and expectations are near equal and hence would show that customers are satisfied with the service. While this does not conclusively prove that satisfactory service quality will tend to be associated with outcomes equal to or above expectations, it does reflect a preponderance of data that would give credit to the hypothesis. This could also indicate, among other things, that the customers did not expect much in the way of outstanding service although this is not likely. The study does show that based upon the results obtained from the study participants that the upper levels made up of those numbered five, six, and seven (with four being average) expectations were registered at 97.1 percent perceptions totaled 97.5 percent, giving a net difference of a very small 0.4 percent. This would indicate a very small level of average and below average differences falling in the unsatisfactory level.

Further analysis indicates that level seven (strongly agree) expectations were 68.9 percent with perceptions being 63.4 percent revealing a net negative difference of 5.5 percent at the uppermost level of service quality. Level six expectations were registered at 20.1 percent with perceptions reflected at 22.3 percent, establishing a higher level of perception than expectation with a net positive difference of 2.2 percent. The fifth level of satisfaction noted an 8.1 percent expectation with perceptions reflected at 9.8 percent, providing a net positive difference of 1.7 percent of perceptions exceeding expectations.

Level 4 representing average or the mid-point had consumer expectations at 2.5 percent with their perceptions measuring 2.8 percent, which reflects a positive 0.3 percent difference. The lowest three levels were insignificant with expectations in levels 1, 2, and 3 respectively being 0.1 percent, 0.1 percent, and 0.2 percent. In all three levels, perceptions were positive and were 1.0 percent, 0.3 percent, and 0.4 percent respectively.

6.15 Implications for Hypothesis 4

This study extended the linkage theory advanced by Churchill and Suprenant (1982) who noted that early researchers did not measure customer satisfaction, Rather, the focus was on the linkage between expectations and perceived product performance. In the present study, it was established through the data that outcomes were equal to or greater than the expectations by the bank customer.

Contrary to the observation by Bitner and Hubbert (1994) that determining what the customer satisfaction construct is or what its meaning consists of is not the same for all individuals or companies, this study added to the body of knowledge by demonstrating that within a reasonable degree of tolerances, customer satisfaction is essentially the same in terms of demands by the customer. The study further confirmed what Ennew and Binks (1996) observed in their extensive research that confirmed and adopted specific constructs of service quality and customer satisfaction in retail banking. Contrary to Fontana (1998) studies in which it was noted that a change in general customer behavior dictated catering to three layers of service to provide customer satisfaction, this study established the concept that there is a degree of universality as to what customers expect, not differing levels.

If a bank can meet or exceed the service expectations the evidence in this study would appear to be clear that the customer would either be a satisfied customer or as a possible alternative, the customer did not expect much from its bank; therefore, any delivery above the low expectations would be tolerated. Since there is no way to determine through the respondent results in this study what the customer was thinking, the assumption has to be that the customer would not compromise his/her standards.

The results from the test of this hypothesis should prove valuable to banks that are seeking to obtain and retain customers because it demonstrates that all of the outcomes can be measured and fall above the average level of satisfaction, which has not been accomplished in other reported studies.

6.16 Testing Hypothesis 5

Hypothesis five addresses the issue of service quality satisfaction being able to be measured utilizing the Service Expectation Perception Grid (also known and referred to in this study as Customer Retention Indicator Grid**)** to measure the likelihood of customer retention. Utilizing a bivariate plot, the data was plotted on customer retention indicator grid designed for this study. The horizontal or x-axis plots the expectations of the respondents and the vertical or y-axis is utilized to plot the respondents' perceptions of the level of service quality. The actual plot can be overlaid by numerous same plot responses, however, it should be noted every pattern is represented in each of the five grids. The 45-degree line across the grid indicates that all plots falling above (left) of the line have a reasonable likelihood of being retained as customers, while those plots falling below (right) of the line do not have a reasonable likelihood of being retained as customers.

Therefore, the hypothesis for H_5 is:

> H_5 : The Service Expectation Perception Grid will describe the likelihood of customer retention.

The null hypothesis for H_5 is:

> H_{05} : **There is no evidence that a standard scale such as the Service Expectation Perception Grid will be able to describe the likelihood of customer retention.**

6.17 Analysis for Testing Hypothesis 5

The value of testing the application of plotting responses appears to be in the ability to read where the responses fall with regard to the four quadrants—low expectations, low perceptions; low expectations, high perceptions; high expectations, low perceptions; and high expectations, high perceptions.

Research Findings

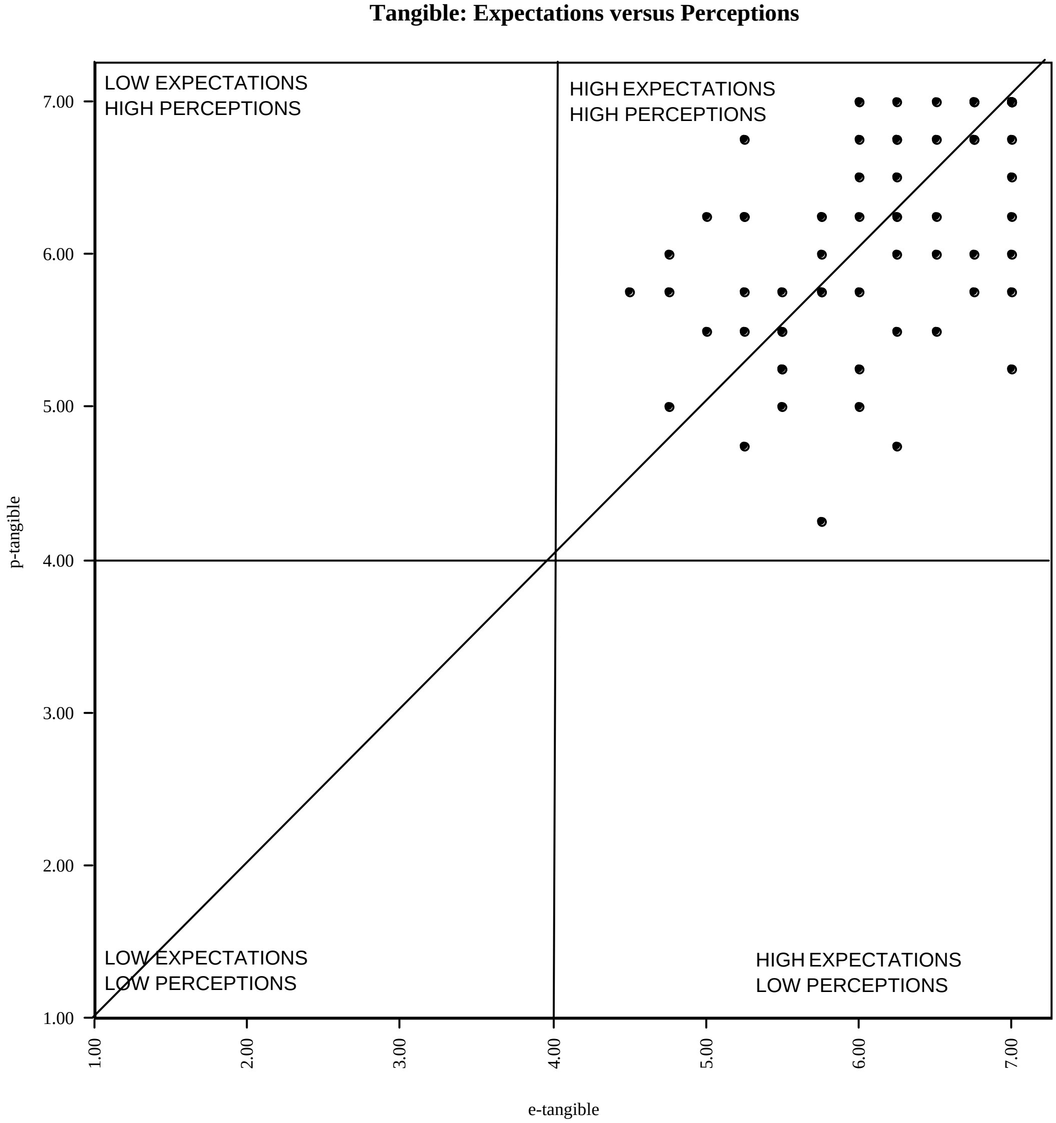
Each of the grids set out below will be a bivariate plot. Hypothesis 2 above tested these responses numerically which is an excellent means of studying service quality. However, a picture such as presented in these grids allows for a quadrant-by-quadrant evaluation of the numeric results. The horizontal or x-axis plots the expectations of the respondents and the vertical or y-axis is utilized to plot the respondents' perceptions of the level of service quality. Each plot point represents approximately ten respondents to be able to get the plots to fit on each of the graphs, and as such, allows no distortion by virtue of the concentration of the responses.

The research had as one of its purposes to determine whether or not a grid could be utilized to plot customer expectations and customer perceptions. As it will be noted in the discussion of each of the five grids, all of the plots will provide further evidence established from critical groupings of the twenty-two questions in the study that the five elements—tangibles, reliability, responsiveness, assurance, and empathy tested in Hypothesis 2 are born out graphically below which clearly show that the preponderance of the plots fall in the high perceptions and high expectations quadrant.

6.17.1 Tangible Grid

In Figure 6.1, all of the plots were in the high expectations and high perceptions portion of the grid, which would indicate from the plots that the respondents are highly likely to remain a customer. These results plot the average

Figure 6.1 Tangible—Expectations versus Perceptions Plot



responses to questions 1 through 4 of the questionnaire. The questions relate state-of-the-art technology, appearance of the physical facilities, employee professionalism, and appearance of materials distributed by the bank. Therefore, the respondents indicated that while they had high expectations in the four areas, they also had high perceptions their bank might have met their requirements.

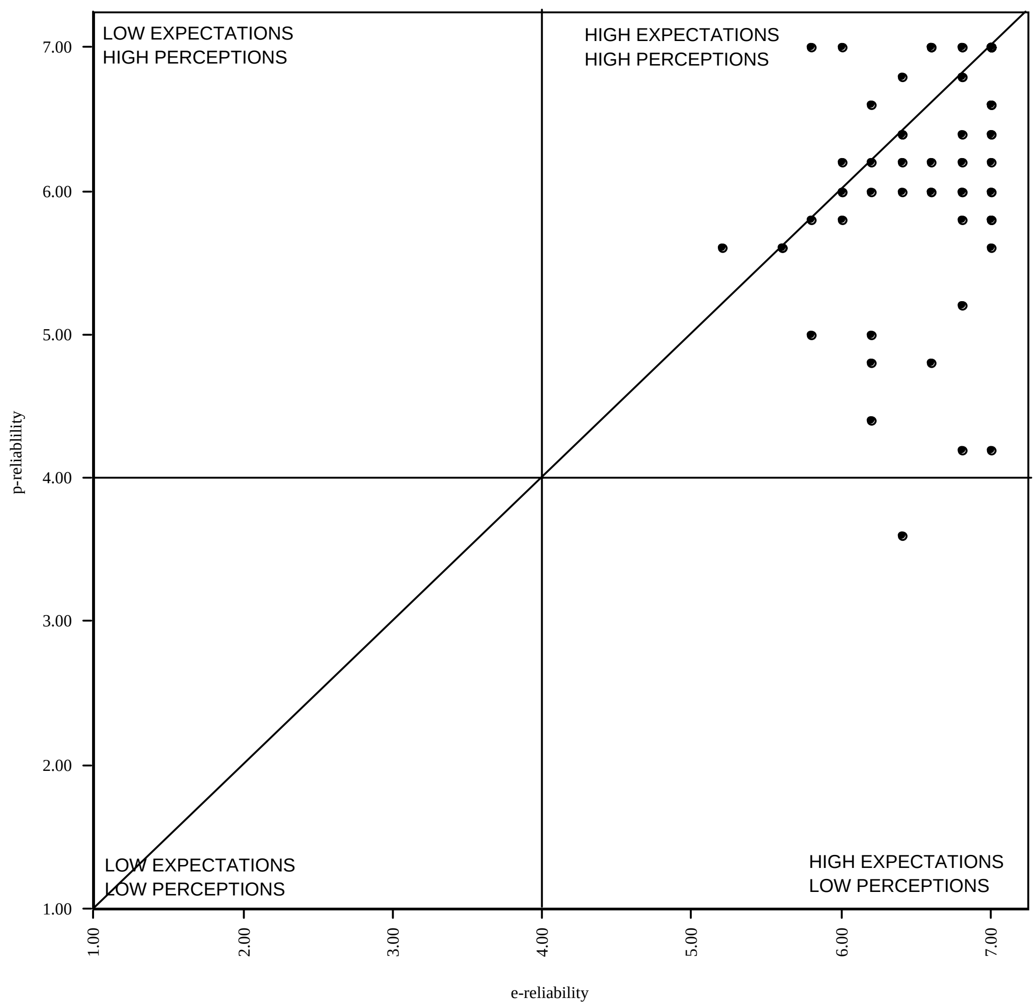
Even though both expectations and perceptions were high, there was a nominal indication of some degree of dissatisfaction. The results do give the bankers a positive indicator of customer retention.

6.17.2 Reliability Grid

The reliability grid shown in Figure 6.2, addresses the respondents answers to questions 5-9 in the questionnaire. The questions concern timely delivery on promises, being sympathetic to customer problems, services performed right the first time, on time service delivery, and insisting on error-free records. Unlike Figure 6.1, this grid has a nominal degree of high expectations with lower perceptions, which would indicate a general likelihood that a small number of respondents might move their accounts to another bank. The grid presents a clear picture of the differences that should serve as an immediate aid to the researcher or practitioner to see trends exposed by the research results. Not to take away the creditability of the numeric data presented earlier, but this grid would allow an immediate observation of results plotted by quadrant that could be very telling when seeking results in this area. Items falling across the quadrant mid-line would be readily ascertainable as those that do not measure up to the service standards expected.

Figure 6.2 Reliability—Expectations versus Perceptions Plot

Reliability: Expectations versus Perceptions

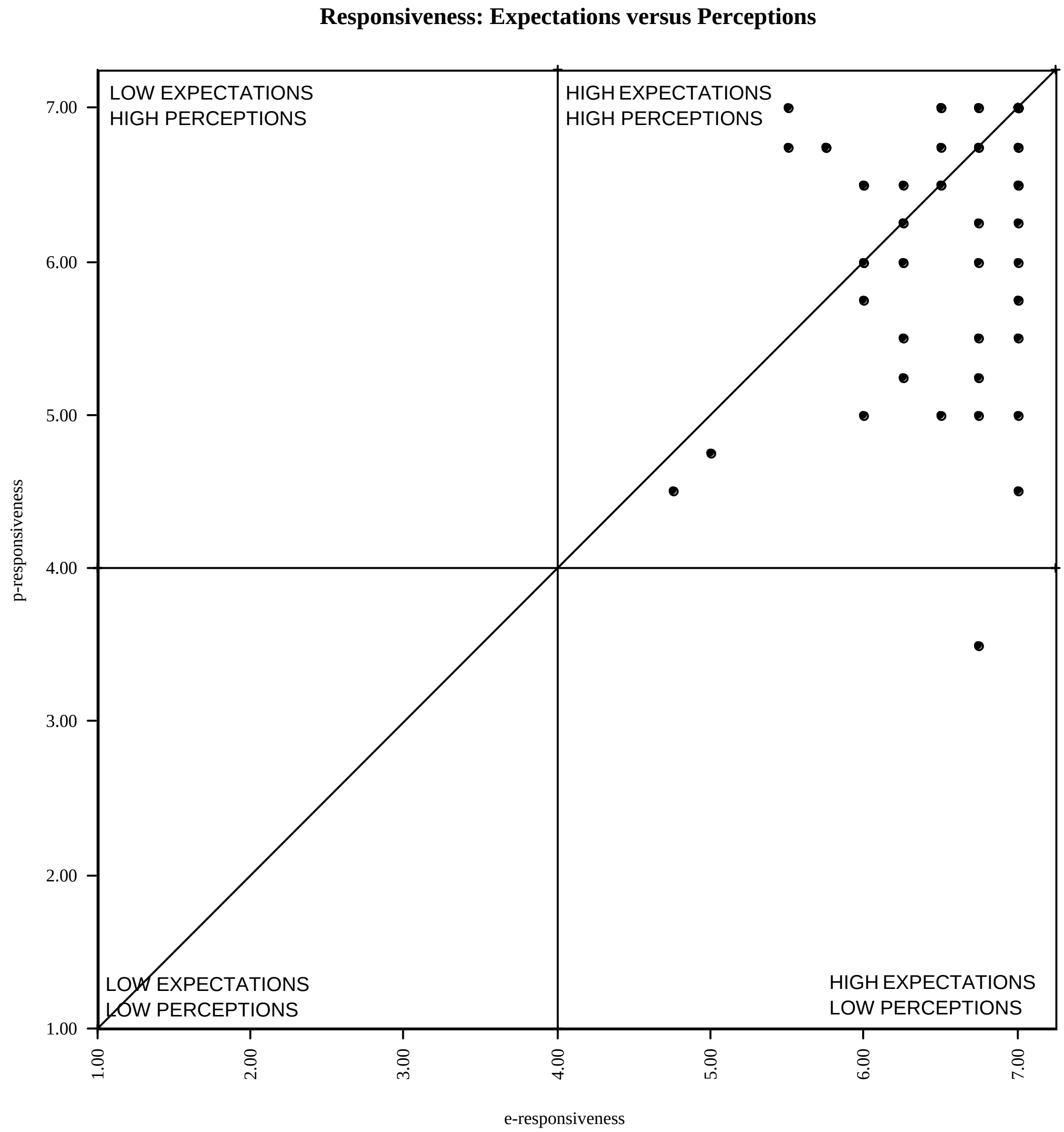


Certainly, the greatest number of respondents indicated high expectations as well as high perceptions which would bode well for most customers being satisfied and likely to remain as customers of the bank. This grid would indicate that there is certainly some work the banks could do in this area to improve customer satisfaction in the areas covered by the five specific questions relating to reliability.

6.17.3 Responsiveness Grid

Much like Figure 6.2, this grid (Figure 6.3) has a nominal degree of high expectations and lower perceptions, which would indicate a general likelihood that a small number of respondents might move their accounts to another bank. The

Figure 6.3 Responsiveness—Expectations versus Perceptions Plot



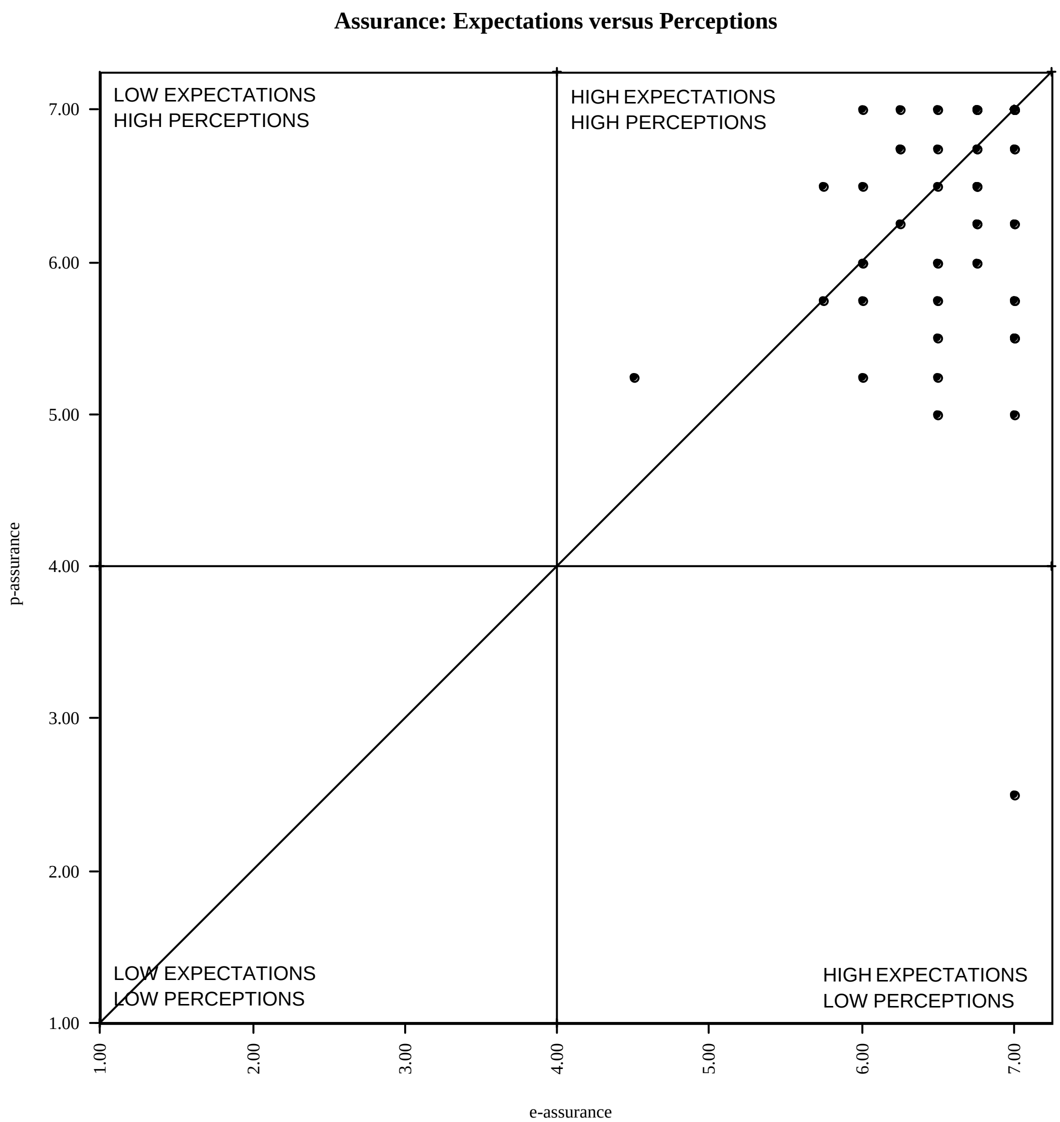
preponderance of responses indicated high expectations as well as high perceptions which would bode well for most customers being satisfied and likely to remain as customers of the bank. The values on the perception scale were slightly higher than in Figure 6.2, which could indicate that the respondents did not expect much in regard to their bank's responsiveness. This lack of expectations could indicate that they did not expect much out of their bank, and as such, they might want to move to a bank where more could be expected. As indicated by the grid, the banks still have some room for improvement as relates to the customer satisfaction in the areas covered by the four specific questions relating to responsiveness.

6.17.4 Assurance Grid

In the area of assurance, there were four questions grouped for evaluation. As noted in Figure 6.4, there were a large number of responses in the high expectations and high perceptions. Unfortunately, there were more responses in the high expectations and low perceptions, which would indicate that those customers responding in that manner are highly likely to move to another bank.

The banks would have two areas of work to be done. First to get the perceptions to more nearly parallel the expectations in the high expectations and high perceptions area. Secondly, the banks must do substantial amount of work to move some of the low scores out of the low perceptions and high expectations area to high expectations and high perception area. Perhaps, the greatest area of concern with the low scores was how low the low scores were in the area of assurance.

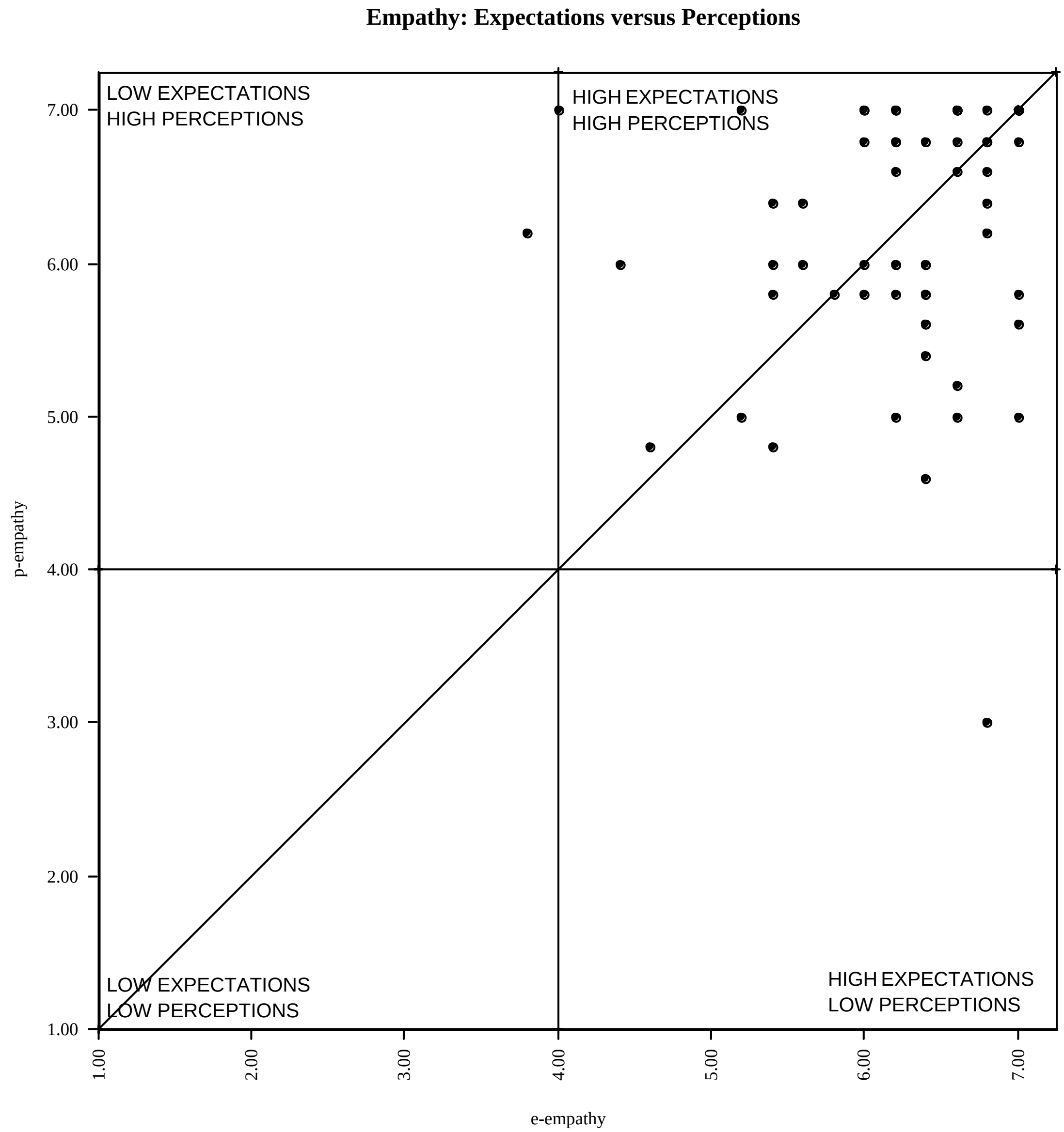
Figure 6.4 Assurance—Expectations versus Perceptions Plot



6.17.5 Empathy Grid

The plot of the empathy grid as noted in Figure 6.5 had substantially more dispersion than all of the other four grids. While the greatest number of respondents indicated high expectations and high perceptions, there were a nominal number who indicated much lower expectations with higher perceptions, which could signal that they did not have high expectations because the bank was not up to the standards of

Figure 6.5 Empathy—Expectations versus Perceptions Plot



other banks. However, in the alternative, the lower expectations with higher perceptions could signal that the banks are delivering above average service. Additionally, a small number chose to indicate high expectations with lower perceptions, which would point to a possibility of these respondents being highly likely to seek another bank or in the alternative, the specific respondents were difficult to satisfy in terms of service. While the majority of the respondents indicated satisfaction with the banks, the banks should very carefully evaluate the five questions relating to empathy from the questionnaire, and seek some answers to the problems indicated to avoid losing customers. Perhaps, there could be an underlying problem that did not surface in this study that could have brought about some of these less than fully satisfied responses that have surfaced in the responses.

6.18 Implications for Hypothesis 5

This study contributes to the body of knowledge in that it establishes new theory concerning the fact that evidence revealed in the study points with a reasonable degree of certainty to the ability to utilize the Service Expectation Perception Grid to predict the likelihood of customer retention utilizing the five elements of SERVQUAL (Parasuraman, et al, 1985).

This study utilizes for the first time, actual plots based upon empirical data to determine the likelihood of customer retention. The literature study produced no data that would compare to this grid plot approach hence a ground-breaking contribution to the body of knowledge.

The closest research had come to a specific calculation came from a type of regression analysis by Jamal and Naser (2002) wherein they were able to link customer satisfaction to three dimensions of service quality, along with other variables relating to age, type of business, gender, etc. Likewise, Howcroft, et al (2002) found variables such as age and other demographics impact customer selection and satisfaction. This study took the five elements established in prior research and through a bi-variate plot showed unusually reliable results in determining the likelihood of customer retention in each of the five elements.

This study adds to the body of knowledge by establishing a means to test expectations versus perceptions by utilizing four quadrant grid plots to determine the full likelihood of customer retention. There are no other studies uncovered in the literature that have attempted to utilize a grid to plot expectations versus perceptions to determine the likelihood of customer retention, which makes this study uniquely original in the field. The study utilized the five elements established by well- researched and long-standing research carried out by Parasuraman, et al (1991b) under their SERVQUAL instrument. These findings applied the principles established in that study and tested them in a banking environment. As shown by the grids, the customers had high expectations and high perceptions as a generalization; however, this does not imply that there is no room for improvement in the area of service provision.

6.19 Testing Hypothesis 6

The sixth and final hypothesis examines the issue of whether differences in gender, age, income, and education will be of significance on service quality perceptions and expectations. The literature did not contain definitive conclusions concerning the impact that demographic data such as gender, age, income, and education will have on service quality perceptions and expectations in general applications even though Howcroft, et al (2002) found variables such as age and other demographics impact customer selection and satisfaction in specific situations.

Therefore, the hypothesis for H_6 is:

> H_6 : Differences in gender, age, income, and education will have a significant impact on service quality perceptions and service quality expectations.

The null hypothesis for H_6 is:

> **H_{06} : There is an absence of significant evidence that differences in gender, age, income, and education will have a significant impact on service quality perceptions and service quality expectations.**

6.20 Analysis for Testing Hypothesis 6

To test this hypothesis, specific questions relating to gender, age, income, and education were included in the survey document in hopes of establishing either a positive or negative impact on overall service quality outcomes. In the following subsections relating to gender, age, income, and education, ANOVA testing will be utilized to examine differences and P-Values which will determine those questions with statistically significant random levels of fluctuations which have been established to be at a level of 0.05 or less. Also, those questions that do no reveal significant, but a nominal significance will also be examined. Each of these specific items will be evaluated on an individual basis to determine their impact, if any, on the statistical significance of the opportunities other than their occurrences in a random situation.

6.20.1 ANOVA Age Evaluation

The ANOVA testing will be utilized to determine any statistically significant differences occurring in other than random opportunities. In evaluating the ANOVA differences with regard to age, only two questions had P-Values greater than the statistically significant level of random fluctuation determined to be .05 or less (question number eleven which stated, “Employees in a bank should/do give prompt service” and question number twenty, “Employees of a bank should/do give their customers personal attention”). Additionally, three other questions show a nominal degree of significance (question number six, “The employees of a bank should be/are sympathetic to solving customer problems.”, question number seventeen, “Employees in a bank should/do have the knowledge to answer customers’ questions. “, and question number twenty-one, “Bank should/do have a customer’s best interests at heart”).

You will note from the five questions that all of them relate to the customer expecting personal attention as opposed to technical issues, appearance issues, and getting the job done correctly. Table 6.20 indicates the mean levels of satisfaction (negative numbers) as well as the levels of dissatisfaction (positive numbers).

Table 6.20 Significant ANOVA Age Differences

	Below 21	21 to 34	34 to 49	50 to 64	65 or Older
Question #6 Mean	0.000	0.058	0.392	0.154	0.190
Question #11 Mean	-0.250	-0.023	0.307	0.225	0.032
Question #17 Mean	0.524	0.058	0.228	0.148	-0.111
Question #20 Mean	-0.333	-0.179	0.037	-0.304	-0.143
Question #21 Mean	-0.095	0.116	0.457	0.260	0.206

Those respondents in the age categories of 34 to 49 and 50 to 64 showed the most dissatisfaction in question number 11. With regard to question number 20 the age category of 34 to 49 displayed a nominal level of dissatisfaction. Those three questions showing a smaller significant p-value difference noted that age categories 34 to 49 and 50 to 64 displayed the most dissatisfaction in all three questions. Additionally, those in age category 65 and older showed a level of dissatisfaction with service in question number 17.

Table 6.21 ANOVA Profile By Question Related To Age

Question	F- Value	P- Value
D1- A bank should/does have state-of-the-art technology.	1.308	.2657
D2- Physical facilities of bank should be/are appealing.	1.088	.3615
D3- Employees of a bank should be/are professional.	.998	.4082
D4- The materials in a bank should be/are visually appealing.	.811	.5183
D5- A bank should/does deliver on promises in a timely manner.	1.339	.2541
D6- The employees of a bank should be/are sympathetic to solving customer problems.	2.089	.0810
D7- Bank services should be/are performed right the first time.	.770	.5450
D8- A bank should/does deliver their services on time.	.298	.8796
D9- The bank should/does insist on error-free records.	1.159	.3282
D10- Customers should be/are told by the bank exactly when services will be provided.	1.154	.3303
D11- Employees in a bank should/do give prompt service.	2.950	.0198
D12- Employees should always be willing to help customers.	.487	.7453
D13- Employees in a bank should/are never be too busy to respond to customers' requests.	1.525	.1933
D14- Behavior of employees in banks should/do instill customers' confidence.	1.048	.3820
D15- Customers should/do feel safe in all their transactions.	1.329	.2578
D16- Employees should be/are consistently courteous with customers.	1.467	.2107
D17- Employees in a bank should/do have the knowledge to answer customers' questions.	1.975	.0970
D18- A bank should/does give customers individual attention.	1.541	.1890
D19- Operating hours of a bank should be/are convenient to all customers.	1.289	.2730
D20- Employees of a bank should/do give their customers personal attention.	2.892	.0218
D21- Bank should/do have a customer's best interests at heart.	2.012	.0915
D22- Employees should/do understand specific customer needs.	.343	.8491

With regard to the age issue the ANOVA results indicate concerns in the area of personal attention. These concerns are nominal overall, but are manifested. Table 6.21 sets out the differences between perception and expectation for each of the twenty-two questions in terms of ANOVA testing for F-Values and P-Values. Other than the differences noted in the five questions above, the data points to age not being a significant factor overall in service perceptions or expectations. the statistical significant differences noted in the above two questions, our findings indicate that there is no statistical significance to age being influential in service quality issues other than those occurring in the above mentioned questions.

6.20.2 ANOVA Gender Evaluation

ANOVA differences were not generally statistically significant with regard to gender in each of the twenty-two questions that had P-Values greater than the significant level of random fluctuation determined to be .05 or less, with the exception of two questions that had statistically significant differences and three questions that bore some nominal significance. The two questions of significance were number twelve, “Employees should always be willing to help customers,” and number sixteen which stated, “Employees should be/are consistently courteous with customers.” The three questions of nominal significance were number eleven, “Employees in a bank should/do give prompt service.”, number fourteen which stated, “Behavior of employees in banks should/do instill customers' confidence.”, and number eighteen, “A bank should/does give customers individual attention.”

Table 6.22 Significant ANOVA Gender Differences		
	Male	Female
Question #11 Mean	0.100	0.255
Question #12 Mean	0.082	0.233
Question #14 Mean	0.182	0.360
Question #16 Mean	0.072	0.250
Question #18 Mean	-0.086	0.062

In four of the five questions, with number eighteen being the exception, males had a nominal degree of dissatisfaction with these questions which all related to personal attention to the customer. However, the females indicated a significant

Table 6.23 ANOVA Profile By Question Related To Gender		
Question	**F- Value**	**P- Value**
D1- A bank should/does have state-of-the-art technology.	1.184	.2770
D2- Physical facilities of bank should be/are appealing.	1.080	.2992
D3- Employees of a bank should be/are professional.	.239	.6248
D4- The materials in a bank should be/are visually appealing.	1.705	.1922
D5- A bank should/does deliver on promises in a timely manner.	.2130	.6444
D6- The employees of a bank should be/are sympathetic to solving customer problems.	.0710	.7905
D7- Bank services should be/are performed right the first time.	.442	.5064
D8- A bank should/does deliver their services on time.	.013	.9098
D9- The bank should/does insist on error-free records.	.035	.8524
D10- Customers should be/are told by the bank exactly when services will be provided.	.784	.3764
D11- Employees in a bank should/do give prompt service.	3.124	.0777
D12- Employees should always be willing to help customers.	4.308	.0384
D13- Employees in a bank should/are never be too busy to respond to customers' requests.	2.742	.0983
D14- Behavior of employees in banks should/do instill customers' confidence.	3.832	.0508
D15- Customers should/do feel safe in all their transactions.	.059	.8080
D16- Employees should be/are consistently courteous with customers.	5.231	.0226
D17- Employees in a bank should/do have the knowledge to answer customers' questions.	1.165	.2810
D18- A bank should/does give customers individual attention.	3.429	.0646
D19- Operating hours of a bank should be/are convenient to all customers.	.115	.7347
D20- Employees of a bank should/do give their customers personal attention.	.432	.5113
D21- Bank should/do have a customer's best interests at heart.	.255	.6136
D22- Employees should/do understand specific customer needs.	.099	.7526

level of dissatisfaction in four of the five questions, and in question number eighteen their dissatisfaction was only nominal.

Table 6.23 sets out the differences between perception and expectation for each of the twenty-two questions in terms of ANOVA testing for F-Values and P-Values.   As noted above only two of the questions presented any statistically significant difference, while three others had a nominally significant level of importance. However, regardless of the five questions, in the overall when you examine the statistical significance, gender does not appear to be a statistically significant factor in perceptions and expectations of service delivery.

6.20.3 ANOVA Income Evaluation

ANOVA differences regarding income had P-Values greater than the statistically significant level of random fluctuation determined to be .05 or less in each of the twenty- two questions, with the exception of questions number four, “The materials in a bank should be/are visually appealing.” and question number twenty-two, “Employees should/do understand specific customer needs.” There was an interesting parallel in the two questions in that there was a high level of satisfaction in every income grouping except in the $25,000 to $50,000 income group in question twenty-two. The issues involved in the two questions centered upon visually appealing materials and employees understanding customers’ needs.

The one question of nominal significance, question three, addressed the issue of employees being professional. In this question the greatest level of dissatisfaction was in the $50,000 to $75,000 income group with some substantial dissatisfaction in the $25,000 to $50,000 level.

Table 6.24 Significant ANOVA Income Differences					
	Under 25K	25K to 50K	50K to 75K	75K to 100K	100K & Over
Question #3 Mean	0.067	0.373	0.290	0.063	0.325
Question #4 Mean	-0.173	-0.027	-0.516	-0.256	-0.172
Question #22 Mean	-0.147	0.074	-0.226	-0.139	-0.366

In only two of the questions there was a significant statistical difference, with one question being nominally significant. Therefore, if you examine Table 6.25 it would be apparent that there would not be enough significant statistical data

Table 6.25 ANOVA Profile By Question Related To Income		
Question	**F- Value**	**P- Value**
D1- A bank should/does have state-of-the-art technology.	1.305	.2670
D2- Physical facilities of bank should be/are appealing.	.418	.7959
D3- Employees of a bank should be/are professional.	2.157	.0727
D4- The materials in a bank should be/are visually appealing.	2.675	.0313
D5- A bank should/does deliver on promises in a timely manner.	.798	.5271
D6- The employees of a bank should be/are sympathetic to solving customer problems.	.370	.8300
D7- Bank services should be/are performed right the first time.	.605	.6595
D8- A bank should/does deliver their services on time.	1.206	.3074
D9- The bank should/does insist on error-free records.	.423	.7924
D10- Customers should be/are told by the bank exactly when services will be provided.	.275	.8940
D11- Employees in a bank should/do give prompt service.	.488	.7444
D12- Employees should always be willing to help customers.	.719	.5794
D13- Employees in a bank should/are never be too busy to respond to customers' requests.	1.553	.1858
D14- Behavior of employees in banks should/do instill customers' confidence.	1.790	.1294
D15- Customers should/do feel safe in all their transactions.	.853	.4924
D16- Employees should be/are consistently courteous with customers.	1.277	.2779
D17- Employees in a bank should/do have the knowledge to answer customers' questions.	1.327	.2587
D18- A bank should/does give customers individual attention.	.718	.5798
D19- Operating hours of a bank should be/are convenient to all customers.	1.280	.2769
D20- Employees of a bank should/do give their customers personal attention.	.649	.6280
D21- Bank should/do have a customer's best interests at heart.	1.563	.1830
D22- Employees should/do understand specific customer needs.	2.812	.0250

to draw a conclusion that income was a significant factor in the issue of service quality. It was anticipated by the researcher that the findings would have shown a correlation between income and demand for service quality. For example, the higher the income it was anticipated that the demand for service quality would increase proportionally which was not the case at all. The income levels had little, if any, impact on the results obtained in service quality.

6.20.4 ANOVA Education Evaluation

The ANOVA profile by education displayed in showed no significant statistical differences with the exception of question number 4, “The materials in a bank should be/are visually appealing,” question number 7, “Bank services should be/are performed right the first time”, and question number 15, “Customers should/do feel safe in all their transactions.”

As can be noted in Table 6.24, question number four related to the appearance of materials in a bank being appealing, and the entire cross-section of the education groups in this question were pleased with the materials with those having a bachelor’s degree being the most satisfied. In question number seven, the issue was having the services performed right the first time, and in this question the

Table 6.26 Significant ANOVA Education Differences

	Some High School	Completed High School	Some College	Bachelor's Degree	Post Graduate Degree
Question #4 Mean	-0.214	-0.115	-0.109	-0.524	-0.137
Question #7 Mean	0.143	0.100	0.470	0.176	0.346
Question #9 Mean	0.259	0.093	0.391	0.112	0.135
Question #15 Mean	0.036	0.305	0.478	0.256	0.135
Question #21 Mean	0.214	0.185	0.490	0.143	0.135

largest level of dissatisfaction was in the group with some college with all education groups reporting some degree of dissatisfaction. Question number fifteen related to customers feeling safe in all their transactions, and there was dissatisfaction across

Table 6.27 ANOVA Profile By Question Related To Education

Question	F- Value	P- Value
D1- A bank should/does have state-of-the-art technology.	1.462	.2123
D2- Physical facilities of bank should be/are appealing.	.929	.4469
D3- Employees of a bank should be/are professional.	.759	.5526
D4- The materials in a bank should be/are visually appealing.	2.967	.0192
D5- A bank should/does deliver on promises in a timely manner.	1.795	.1283
D6- The employees of a bank should be/are sympathetic to solving customer problems.	1.163	.3261
D7- Bank services should be/are performed right the first time.	2.774	.0265
D8- A bank should/does deliver their services on time.	1.337	.2551
D9- The bank should/does insist on error-free records.	2.148	.0737
D10- Customers should be/are told by the bank exactly when services will be provided.	1.677	.1539
D11- Employees in a bank should/do give prompt service.	.294	.8820
D12- Employees should always be willing to help customers.	.941	.4397
D13- Employees in a bank should/are never be too busy to respond to customers’ requests.	.201	.9378
D14- Behavior of employees in banks should/do instill customers' confidence.	1.501	.2005
D15- Customers should/do feel safe in all their transactions.	3.181	.0134
D16- Employees should be/are consistently courteous with customers.	1.440	.2195
D17- Employees in a bank should/do have the knowledge to answer customers’ questions.	.761	.5510
D18- A bank should/does give customers individual attention.	.922	.4507
D19- Operating hours of a bank should be/are convenient to all customers.	1.522	.1945
D20- Employees of a bank should/do give their customers personal attention.	.718	.5800
D21- Bank should/do have a customer’s best interests at heart.	2.377	.0510
D22- Employees should/do understand specific customer needs.	1.305	.2670

the entire education spectrum with those completing some high school and those completing some college being the most dissatisfied.

Two questions displayed nominal dissatisfaction by the respondents. Those questions were question number seven, “Bank services should be/are performed right the first time.” and question number twenty-one, “Bank should/do have a customer's best interests at heart." In both of these questions the educational group with some college registered the greatest amount of dissatisfaction with nominal dissatisfaction registered by all other educational groupings. These questions related to performance and personal service respectively.

It should be noted that while there is a statistically significant difference in the above three questions and nominally statistically significance in two other questions, as it relates to the overall issue of education impacting service quality the data does not suggest significance. This can be observed by examining the p-values in Table 6.27.

6.21 Implications for Hypothesis 6

The study was unable to determine that there was significant evidence that differences in gender, age, income, and education will have a significant impact on service quality perceptions and service quality expectations.

6.22 Chapter Summary

As noted in the research findings, the importance of quality service delivery is important to the bank consuming public, and as such cannot be minimized. Since most of the responses to the questionnaires noted a very high agreement (90 percent) in the top two scales, this should get community banks' attention when seeking to satisfy their consumer base. From the data it appears highly likely that if the community banks met all of the consumers' expectations that the consumers would be inclined to not change their banking relationship to another financial institution. While satisfaction with service quality delivery might be an important factor, the study cannot predict its importance in retaining consumers. Other issues that could impact how the consumers' choose their bank revolve around the findings that indicated expectations did not meet the consumers' perceptions in a majority of the issues raised in the questionnaire. Failing to meet the consumers' expectations would appear to be a factor in selecting a new community bank or deselecting their existing bank.

Positive expectations versus perceptions were indicated in such areas as a physically appealing facility, marketing materials appeal, the bank not being to busy to respond to the consumer's needs, individualized attention for the consumer, convenient operating hours, and understanding the specific needs of the customers. Some of these issues with positive expectations are important areas for the community banks to focus upon, building from a position of existing strength.

However the areas where expectations are not adequately met can cause substantial problems for community banks seeking to retain their existing consumers and obtaining new ones. Issues such as the lack of state-of-the-art technology, unprofessional employees, failing to deliver on promises, unsympathetic to solving consumer problems, services not performed correctly the first time, lack of insistence on error-free records, service timing not explained to the consumer, lack of prompt service, employee behavior did not instill confidence, consumer did not feel safe in all transactions, lack of consistent courtesy, employees did not answer consumer's questions, and bank did not have consumer's best interests at heart. The above issues could be very important to the consumers and could influence them to seek another financial institution.

Research Findings

Since there is very little in the way of empirical studies of the bankers' perceptions concerning the consumers' expectations, some of the data proved to be interesting from the community banks' standpoint. The most significant finding in relation to bankers' perceptions of service delivery expectations of consumers was the fact 81.9 percent of the responses to the questions indicated a match of bankers' perceptions with consumers' expectations. Since much of the early literature indicated much consumer displeasure with service quality delivery, it appears based upon this study that the recent emphasis by community banks in America to deliver a high level of quality service is timely. From this study, there is reasonable reliability in the responses to indicate that most community bank customers are satisfied with the quality of service delivery. Given the high level of satisfaction, it would appear to be beneficial to the bankers' to understand what the consumers are looking for when they seek to provide service to meet those expectations.

Chapter Seven

Conclusions

7.1 Introduction

This final chapter will present an overview of the study's structure by setting out the salient points of the previous chapters. The study will attempt to summarize the contribution to knowledge that this study has made to the field of knowledge and how that knowledge has stimulated subject matter that could promote further research in the field. It will present the pertinent theoretical implications of the major findings as well as setting out the implication of potential managerial applications. . To conclude the chapter, the limitations of the study will be exposed, and it will seek to point out future research opportunities in the area of predicting customer retention through service quality applications of the customer retention grid.

7.1.1 Summary of the Structure of the Study

The study was organized into a total of seven chapters to order the study to sequentially flow to conclusion. To open the study the first chapter had as its main thrust to set the scenes of the study. First, it informed the audience about the focus, value, and justification for the study, and secondly, it focused on the extensive lack of knowledge on predicting customer retention as a result of service quality. Third, it specified the reasons why the study focused on community banks in the southern United States of America. Fourth, it presented the aim of the study and the research objectives, and concluded by giving an overview of the remaining chapters of the study.

To properly set up the study and provide a thorough review of the banking system within the United States that was being examined, chapter 2 presented a review of the history of banking in the United States of America from it early beginnings down to current times to include the unique nature of the U. S. banking system.

Conclusions

Community banks and large banks are defined to show the particular segment the research will isolate and study. This was deemed necessary in order to inform the audience about the unique nature of the United States of America banking system with its 7,712 individual bank charters with in excess of 90,000 branches to serve bank customers.

Following the detailed history of banking in the United States of America it was necessary to explore the literature in detail to determine what if any research had occurred that reflected specifically upon the study. Initially it was thought that one chapter would be adequate, however, upon examining the topic to be studied it was determined that a better approach would be to examine customer satisfaction and then create a subsequent literature review for service quality, which seemed to help the flow of the study.

Therefore, the third chapter was dedicated to a review of the literature in the area of customer satisfaction with a three-fold aim of examining and exposing customer loyalty, customer retention, and customer relationship management. First a discussion of the evolution of the literature on customer satisfaction with its primary elements--customer loyalty, customer retention, and customer relationships will be presented. The chapter exposes the existing literature by discussing, defining, and measuring customer satisfaction. The chapter presents an evaluation of the issues such as customer loyalty is not customer retention, customer defections as a tool for success, and utilizing bank loyalty to attempt to retain customers. Finally, the chapter concludes by providing concepts that indicate the interrelationships of customer loyalty, customer retention, and customer relationship management and how they impact the customer satisfaction aspects of service quality.

Conclusions

Follow the thorough review of the literature relating to customer satisfaction the next chapter (Chapter 4) presents a second and a pivotally important segment of the literature review. It focuses on the development of service quality. Additionally, it thoroughly examines the distinct role of services marketing, relationship between customer satisfaction and service quality, a definition, measurement, and dimensions of service quality. The goal here is to provide a review of the principal literature relating to this study, which is service quality. In addition, it will evaluate the existing literature and establish the identity of the gaps in the literature, which will provide the framework on which this research is based.

The literature review points to SERVQUAL developed by Parasuraman, et al (1988) as the optimum measuring device that can be modified to accomplish predicting customer perceptions against expectations and the casting of those perceptions and expectations against the service provider perceptions of what it will require to satisfy the customers' service needs.

Further it focuses on the importance of the literature in the areas of service quality measurement in banks, service as an element of bank selection, service quality impact on bank profitability, and the validity of a modified SERVQUAL instrument being utilized in banking applications of service quality measurement. The chapter concludes by focusing on the conceptual framework of the study and a summary of the research issues.

Upon completion of the review of the literature, the study sought a direction for the research methodology. Most of the literature related to non-banking and financial organizations in the study of service quality. A study by Bahia and Nantel (2000) is highlighted noting that there are no publicly available standard scales for measuring perceived quality in banks. Therefore, it was necessary to determine a study or studies that would work best to formulate an empirical study instrument. The fifth chapter was utilized to discuss the research methods, techniques, and procedures utilized to empirically test the model. The chapter then turns to the need to have the ability to measure service quality for customer retention. It was determined that the modified SERVQUAL instrument provided an excellent device to measure perceived quality in banks.

How several focus groups were utilized to test the data is highlighted in the chapter. Using a group of community banks and a sample of their customer base, an examination of service quality gaps in a unique and original manner while utilizing a modification of the well-regarded SERVQUAL instrument follows. The unique nature of the study is pointed out indicating how it revolves around customer expectations and perceptions of service, which is then evaluated against bankers' perceptions of customer expectations of service quality. An additional test of data against certain unique characteristics of the customer is incorporated to give additional support to group discrimination is discussed. It concludes with the reliability, validity, and limitations of the research.

Having established the methodology for the study, it was necessary to begin with a profile of the sample and of the respondents and the demographic data related thereto. The sixth chapter was utilized to present the research findings. To that end, it was necessary to obtain respondents' reactions to reasons for selecting the bank. Consumer expectations versus perceptions are examined. One of the most significant research findings related to the area of measuring bankers' perceptions of consumers' expectations of service delivery, which had not been previously researched. Another main focus of the study, the Customer Retention Indicator Grid, is introduced and used to measure the likelihood of customer retention.

To conclude the study, the seventh chapter brings together the qualitative and quantitative findings and discusses the most significant ones by comparing and contrasting them with the relevant literature. A thorough discussion of the questionnaire results are presented to arrive at the conclusions and implications of the findings where there is no literature regarding the utilization of the customer retention grid for predicting customer retention. Likewise, it hopes to present a valuable tool for community bank practitioners to utilize for customer retention.

This final chapter brings out the study's contribution to knowledge in several areas of service quality delivery. It also provides the detailed theoretical implications and sets out some unique practical implications of the study's main findings. The study then concludes by advising the audience about the limitations of the findings and suggesting a future course for further research.

7.2 A Summary of the Study's Contribution to Knowledge

Before this study was commenced, there had only been recorded in the literature three very limited studies (Schlesinger et al, 1987; Buerger and Ulrich, 1986; and Rosenblatt et al, 1988) relating to service quality in banks within the United States. None of the studies related to banks in the southern United States, but more importantly, they failed to focus on the reasons for selection of banks by consumers rather they sought to identify the banking needs of the business customers.

Conclusions

This study was the first systematic study of the specific impact of linkage between expectations and perceived performance relating to the importance of service quality in the selection of a community bank. While the study results can by no means be considered the only ones that can accurately predict customer likelihood of selecting a bank, it does give a reasonable expectation of how customers will react with regard to their decision-making based upon service quality delivery.

Unlike, several researchers who confirmed the view that satisfaction by the customer was very similar to a favorable customer attitude, the study confirmed the relationship between perception and actuality as opposed to the estimated similarity.

Over the next five years a number of studies (Parasuraman, et al, 1985 & 1988; Bitner, 1990; Cronin and Taylor, 1992; and Howcroft, 1992) examined and measured customer perceptions versus customer evaluations of services provided. While the importance of the relationship between perceptions and evaluations had been well established in numerous fields that established excellent methodology, no U. S. A. banking studies had been utilized until the current study established this important relationship.

While the theory of selection has abounded in the literature reviewed (Bahia and Nantel, 2000; Oppewal and Vriens, 2000; and Beckett, et al, 2000), this research, unlike other studies, has sought to prove through the selection theory that service quality was the single most important driver in selection of a bank. It would certainly appear from the empirical results of this study that service quality is the most important of the five factors offered to respondents of the study in the selection of a community bank, however until numerous other factors are compared with service quality in further empirical studies, other factors cannot be ruled out as being highly significant in the bank selection process by consumers.

Until this study, most of the previous literature (Anderson and Cox, 1976; Dupuy and Kehoe, 1976) postured that location was consistently cited as the most important criterion in bank selection. A few studies were conducted in the USA during the 1980s, for example Buerger and Ulrich (1986) noted in a survey of 475 small businesses in Pennsylvania that price was the most important criteria for these businesses to select a bank, but had no other significant findings. This study using a rather large and reliable sample determined that service quality was the number one reason customers select banks in the southern portion of the United States.

This study builds on Howcroft's (1992) pilot study of service quality in selected United Kingdom banks that found there were differences in what bank staff stated and what was observed. He interviewed branch staff and management and obtained comments from customers on training and work experience, motivation of staff, selling and customer service, and communications

This study differs by utilizing the exact 22 questions on over 700 customers and 15 bank chief executive officers in the customers' banks. It builds and extends his study by actually questioning consumers and bankers and comparing their results on similar questions.

No other study of bankers' perceptions of customers' expectations indicating that bankers have a reasonable understanding of what their customers expect other than Athanassopoulos (1997) who sought to determine whether service providers were in a position to separate their beliefs from what their customer believed. Uniquely, this study empirically measured the differences. Granted there have been numerous studies relating to the applicability and validity of customer expectations compared to their expectations across various industries and a somewhat more limited basis in the banking and financial services industries, there is no study validated in the literature, excepting this present study, that addresses how bankers perceive their customers expectations of service delivery. Most of the studies address various aspects of the relationship between customer expectations and customer perceptions of service quality, but the unit delivering the service quality is uniquely ignored. We believe this to be trail-blazing research that offers a substantial new avenue for research into one of the important areas—that of the service provider understanding what the customer seeks and needs.

This study extended the linkage theory advanced by Churchill and Suprenant (1982) who noted that early researchers did not measure customer satisfaction, Rather, the focus was on the linkage between expectations and perceived product performance. In the present study, it was established through the data that outcomes were equal to or greater than the expectations by the bank customer.

Contrary to the observation by Bitner and Hubbert (1994) that determining what the customer satisfaction construct is or what its meaning consists of is not the same for all individuals or companies, this study added to the body of knowledge by demonstrating that within a reasonable degree of tolerances, customer satisfaction is essentially the same in terms of demands by the customer. The study further confirmed what Ennew and Binks (1996) observed in their extensive research that confirmed and adopted specific constructs of service quality and customer satisfaction in retail banking. Contrary to Fontana (1998) studies in which it was noted that a change in general customer behavior dictated catering to three layers of service to provide customer satisfaction, this study established the concept that there is a degree of universality as to what customers expect, not differing levels.

If a bank can meet or exceed the service expectations the evidence in this study would appear to be clear that the customer would either be a satisfied customer or as a possible alternative, the customer did not expect much from its bank; therefore, any delivery above the low expectations would be tolerated. Since there is no way to determine through the respondent results in this study what the customer was thinking, the assumption has to be that the customer would not compromise his/her standards.

The selection theory advanced by an earlier consumer behavior matrix (Beckett, et al, 2000) and the total customer relationship concept which was a focus of Peppers and Rogers (2004) was advanced through the results of this study by utilizing bi-variate plots to predict the likelihood of customer retention in the total customer relationship. While further study is needed, the plots provided a reliable indicator for customer selection behavior.

This study contributes to the body of knowledge in that it establishes new theory concerning the fact that evidence revealed in the study points with a reasonable degree of certainty to the ability to utilize the Service Expectation Perception Grid to predict the likelihood of customer retention utilizing the five elements of SERVQUAL (Parasuraman, et al, 1985).

This study utilizes for the first time, actual plots based upon empirical data to determine the likelihood of customer retention. The literature study produced no data that would compare to this grid plot approach hence a groundbreaking contribution to the body of knowledge. The closest research had come to a specific calculation came from a type of regression analysis by Jamal and Naser (2002) wherein they were able to link customer satisfaction to three dimensions of service quality, along with other variables relating to age, type of business, gender, etc.

Likewise, Howcroft, et al (2002) found variables such as age and other demographics impact customer selection and satisfaction. This study took the five elements established in prior research and through a bi-variate plot showed unusually reliable results in determining the likelihood of customer retention in each of the five elements.

This study adds to the body of knowledge by establishing a means to test expectations versus perceptions by utilizing four quadrant grid plots to determine the full likelihood of customer retention. There are no other studies uncovered in the literature that have attempted to utilize a grid to plot expectations versus perceptions to determine the likelihood of customer retention, which makes this study uniquely original in the field. The study utilized the five elements established by well-researched and long-standing research carried out by Parasuraman, et al (1991b) under their SERVQUAL instrument. These findings applied the principles established in that study and tested them in a banking environment. As shown by the grids, the customers had high expectations and high perceptions as a generalization; however, this does not imply that there is no room for improvement in the area of service provision.

7.3 Theoretical Implications of the Research

The new source of empirical evidence from the in-depth investigation of specific elements of the service quality process points to some significant theoretical implications, which are discussed below.

7.3.1 The Influence of Bank Selection As A Result of Service Quality

While numerous researchers including Parasuraman, et al; (1988) and Beckett, et al (2001) have evaluated the theory of linkage between expectations and perceived performance relating to the importance of service quality in general, there was a general lack of research in the area of service quality considering linkage as a major factor in the selection of a bank by a customer. No doubt one of the more important contributions of the present study to the theory of linkage has been the evidence presented reflecting the importance of service quality in the selection of a bank, which builds upon a study in customer relationship management (CRM) by Ryals and Payne (2001) that noted the need to tie information technology with marketing strategies to build long-term customer relationships.

This study was the first systematic study of the specific impact of linkage between expectations and perceived performance relating to the importance of service quality in the selection of a bank. While the study results can by no means be considered the only ones that can accurately predict customer likelihood of selecting a bank, it does give a reasonable expectation of how customers will react with regard to their decision-making based upon service quality delivery.

Conclusions

In validating the elements, it should be noted that while there is a high degree of approval by the customers in the selection process, there is some degree of disapproval regardless of how nominal it may be.

Further, in light of the reported literature, there was no specific study that has examined the linkage theory of consumer expectations versus perceptions of actual service delivery in community banking within the United States of America other than this study. Historically, even the process of comparing consumer expectations to consumer perceptions has only been considered within the past twenty-five years. While the importance of the relationship between perceptions and evaluations had been well established (Parasuraman, et al, 1985 & 1988; Bitner, 1990; Cronin and Taylor, 1992; and Howcroft, 1992), no banking studies with the exceptions of this study were utilized to establish this important relationship.

At this same time banking was changing, and the theory of linkage became even more important where banks once relied upon products to make their profit margin in a highly regulated industry, and the customers basically were on the sidelines, now banks are driven by customers who demand service quality. Several researchers (Stone, 1995; and Berry et al, 1988) observed that quality of service is very important in separating competing businesses in banking as well as in the retail sector. Banks seeking to maximize profitability have come to realize that good quality helps a bank obtain and keep customers and poor quality will cause customers to leave a bank, but they had not approached service quality from a linkage of perceptions and expectations.

7.3.2 Need To Determine If Service Quality Is More Important In Bank Selection In United States Community Banks Than Other Factors

Selection theory has abounded in the literature reviewed, but unlike other studies, this research has sought to prove through the selection theory that service quality was the single most important driver in the selection of a bank. Having said that the literature review contained various selection vehicles, the study did not uncover a specific study relating to comparing which element was most important in influencing selection—service quality or location in United States Community Banks. There were several other factors deemed to be less significant that had not been tested against such factors as service quality or location. The five factors were service quality, location, advertising, recommendation of others, and service charges/fees. This study sought to test the five factors against each other for importance in the selection process. In an overwhelming confirmation by respondents examined in this study, the field of knowledge in the selection theory was advanced by determining that service quality was the single most important factor in the selection of community banks within the United States of America.

Perhaps, one would ask what the significance might be to determine the most important factor considered by a customer when selecting a U. S. community bank. The importance as noted in the literature is to provide the banks with a means of selecting an efficient strategy to obtain customers.

A few studies were conducted in the USA during the 1980s (Schlesinger, et al; 1987 and Buerger and Ulrich; 1986), but these studies failed to focus on the reasons for selection of banks by consumers rather they sought to identify the banking needs of the business customers. Most of the studies relating to both businesses' and consumers' criteria for selection of a bank have been conducted outside the U. S. A.

Peppers and Rogers (2004) noted that customer relationship management has been more widely used in the banking industry than any other industry. They pointed out that CRM serves as a means to provide customer satisfaction in the service delivery process allowing the customer and the financial institution to function more efficiently as they conduct business. Further, the use of technology allows the organization to treat all of the customers' business as a relationship rather than individual pieces of business.

It would certainly appear from the empirical results of this study that service quality is the most important of the five factors offered to respondents of the study in the selection of a bank, however until numerous other factors are compared with service quality in further empirical studies, other factors cannot be ruled out as being highly significant in the bank selection process by consumers.

7.3.3 Need to Determine If There Is Evidence To Indicate Bankers' Perceptions Of Customers' Expectations Will Be Lower Than Expectations

While there have been numerous studies (Parasuraman, et al, 1985 & 1988; Bitner, 1990; Cronin and Taylor, 1992; and Howcroft, 1992) relating to the applicability and validity of customer expectations compared to their expectations across various industries and a somewhat more limited basis (Stone, 1995; and Berry et al, 1988) in the banking and financial services industries, there is no study validated in the literature, excepting this present study, that addresses how bankers perceive their customers expectations of service delivery. Most of the studies such as Howcroft (1992) address various aspects of the relationship between customer expectations and customer perceptions of service quality, but the unit delivering the service quality is uniquely ignored. Uniquely, the customer does not deliver the service so the studied responses in most research include an evaluation that totally ignores the bank or other entity delivering the all-important service.

A surprise result in this study was the lack of evidence to indicate bankers' perceptions of customers' expectations will be lower than expectations by the customer. Customers indicated in a study of banks and credit unions (Allred, and Addams, 2000) that they generally felt that managers and staff members did not know what the customer desired in the way of products and services. Bexley (1999) raised the question in his study about the lack of evidence to indicate that bankers understood what their customers desired in the way of services.

Therefore, it became necessary to determine if the banks have a grasp of the customer expectations to help ensure that service delivery will measure up when delivered to the customer. To that end, while the data did not provide sufficient insight as to why the bankers' perceptions of consumers' expectations of service quality delivery were so close, it is a possibility that community bankers are more aware of service delivery expectations than the much larger banking organizations.

The most significant finding in relation to bankers' perceptions of service delivery expectations of consumers was the fact 77.3 percent of the responses to the questions indicated a match of bankers' perceptions with consumers' expectations. Since much of the early literature indicated much consumer displeasure with service quality delivery, it bore significant value to the recent emphasis by community banks in America to deliver quality service.

Conclusions

It was interesting to note from the data contained in the banker questionnaire that in only five of the twenty-two questions did the mean deviations of the bankers' perceptions differ materially (0.250 mean difference or greater) from the consumers' expectations. One of the five questions was "a bank should have state-of-the-art technology" that had a 0.783 mean difference with the consumer expecting more. A second question, "the physical facilities of a bank should be visually appealing" had a 0.340 mean difference with the consumer expecting more. The third question, "customers should be told by the bank exactly when services will be provided" had a mean difference of 0.301 with the consumer expecting more. "Employees in a bank should have the knowledge to answer customer questions" was the fourth question with a significant difference indicated by a mean difference of 0.256 with the consumer expecting more. The fifth and last question with a significant mean difference was " a bank should have a customer's best interests at heart" with a mean difference of 0.335 with the consumer expecting more. These five questions should command additional study.

The tangible elements in the questionnaire related primarily to the physical aspects of the bank such as technology and materials. As noted in the above paragraph, two of the five questions with significant differences fit into this category. Likewise, in the area of responsiveness that relates to promptness and helpfulness, there were two questions with significant differences as noted above.

Timely delivery of services as related to the questionnaire came under the category of reliability. There were no significant differences between bankers and consumers in this category. Consumer feeling of safety and courteous treatment made up the area of assurance in the questionnaire, and there was only one question relating to knowledge sufficient to answer customer questions showed a degree of significance.

The last area encompassed in the questionnaire was that of empathy that related to individual attention, understanding customer needs, and convenient hours. There were no significant differences between consumers and bankers.

The dynamics of the content of comparing the various perceptions to expectations as presented in this present study has two implications for the theory. First, a single study cannot begin to capture the entire dynamics of such a vast subject. Second, and equally important, the conclusions captured in this area and reported here can only be considered the first steps toward the development of the literature to compare and contrast customer expectations with bank perceptions of what the customer desires. Since this is the first empirical research documented in the area of comparing and contrasting customer expectations with bank perceptions of what the customer desires, it will require further empirical evaluation based on future research directions that will be discussed later in this chapter.

7.3.4 Will Satisfactory Service Quality Tend To Be Associated With Outcomes Equal To Or Above Expectations?

The linkage theory is once again tested with regard to the issue of service quality satisfaction being related to outcomes being equal to or greater than expectations by the bank customer was explored in this study. At issue is will outcomes equal or exceed expectations? The literature addresses each of these issues, but does not make a definitive conclusion concerning this issue. For example in a review of the literature in this study, Churchill and Suprenant (1982) noted that early researchers did not measure customer satisfaction, Rather, the focus was on the linkage between expectations and perceived product performance. If a bank can meet or exceed the service expectations the evidence would appear to be clear that the customer would either be a satisfied customer or as a possible alternative, the customer did not expect much from its bank; therefore, any delivery above the low expectations would be tolerated. Since there is no way to determine through the respondent results in this study what the customer was thinking, the assumption has to be that the customer would not compromise his/her standards.

A mean comparison examined the mean and percentage of the mean of consumer responses in total to the expectations against the mean and percentage of the mean of consumer responses to the perceptions in total. The results indicated that in each of the levels of agreement, with the exception of level known as "strongly agree", the perceptions of the service or outcomes exceeded expectations. Interestingly, there was a net numeric difference of five respondents between level "strongly agree" and the remaining six levels, which would lead one to say that perceptions and expectations are near equal and hence would show that customers are satisfied with the service. However, this does not conclusively prove that satisfactory service quality will tend to be associated with outcomes equal to or above expectations. This could indicate, among other things, that the customers did not expect much in the way of outstanding service.

Substantial additional empirical research might lead to more definite conclusions concerning tendencies to associate satisfactory service quality with outcomes equal to or above expectations. As pointed out earlier in this study, evaluating the bank perceptions about customer expectations might help reinforce a lack of conclusive data in this area. At least in that case, it could be determined that the bank understood basically what the customer was seeking in the way of service quality expectations.

7.3.5 Need To Determine If A Standard Scale Can Measure Likelihood of Customer Retention

There was no evidence in the literature uncovered to indicate that a standard scale had been used to measure the likelihood of customer retention to further the selection theory in community banks. This study attempted to advance the selection theory tested by Beckett, et al (2000) by determining if five factors from the modified SERVQUAL instrument known as tangibles, reliability, responsiveness, assurance, and empathy utilized in a bivariate plot could produce a reliable predictor of customer retention based upon service quality. These five dimensions/factors are addressed across the various five factors with the 22 questions to confirm those dimensions/factors. Each of the factors are plotted and overlaid to produce a total plot. Utilizing the horizontal axis to plot expectations and the vertical axis to plot perceptions, a precise plot point was established in one of four quadrants of a specially designed grid. The four quadrants: low expectations and low perceptions, high expectations ad low perceptions, low expectations and high perceptions, and high expectations and high perceptions.

Once a 45-degree line was drawn across the grid, it was determined that all customer plots falling above or left of the line had a high chance of being retained as a customer, while those that fell below or right of the line had a high likelihood of leaving the bank. Therefore, those plots provided a pattern for each of the five dimensions/factors.

The conclusion that could be drawn by overlaying the five plots is that there appears to be a high likelihood that a bank could reasonably predict the retention of customers by the bank. While there needs to be more empirical study in this area, the overlaid plots consistently show a majority of the plots falling within the high expectations and high perceptions.

The selection theory advanced by an earlier consumer behavior matrix (Beckett, et al, 2000) and the total customer relationship concept which was a focus of Peppers and Rogers (2004) was advanced through the results of this study by utilizing bi-variate plots to predict the likelihood of customer retention in the total customer relationship and the plots provided a reliable indicator for customer selection behavior.

This study contributes to the body of knowledge in that it establishes new theory concerning the fact that evidence revealed in the study points with a reasonable degree of certainty to the ability to utilize the Service Expectation Perception Grid to predict the likelihood of customer retention.

7.3.6 Need To Determine If Differences In Age, Income, and Education Will Have A Significant Impact On Service Quality

Conclusions

In this study there is an absence of significant evidence to further the linking theory that differences in gender, age, income, and education will have a significant impact on service quality perceptions and service quality expectations.

ANOVA testing was utilized to examine differences and P-Values were used to determine statistically significant random levels of fluctuations at a level of 0.05 or less. Each of these specific items was evaluated on an individual basis to determine their impact, if any, on the statistical significance of the opportunities other than their occurrences in a random situation.

In only two of the twenty-two questions were there significant statistical differences so it would have to be concluded that there was no overall statistical significant differences to age being influential in service quality issues. Similar to the issue of age, income had only two questions (not the same two) of the twenty-two questions that showed some statistical differences. Therefore, one would have to conclude that income did not show significant statistical differences in influencing service quality. It should be noted that while there is a statistically significant difference in only three of the twenty-two questions, relating to education being a factor impacting service quality the data does not suggest significance

There is certainly not enough evidence to conclusively indicate that gender, income, and education do not impact service quality. More empirical studies are especially dictated in this area.

7.4 Practical Implications of the Research

Conclusions

This research builds on existing literature that provides an understanding of service quality measurement. The present study takes this work forward by considering how bankers perceive their customers expectations of service delivery. While most of the studies address various aspects of the relationship between customer expectations and customer perceptions of service quality, but the unit delivering the service quality has been uniquely ignored to this point. Unlike other studies there is a useful means provided for the evaluation of how the bank or other entity delivering the all-important service perceives the expectations of the consumer. The value of determining the importance of a bank's perceptions of customer expectations is readily apparent when the existing literature points to many examples of customers leaving organizations because they do not deliver the expected level of service quality (Turnbull and Gibbs, 1989; Haron, 1994; Zineldin,2000).

The highly competitive nature of banking points to the need for information addressing means to not only retain existing customers, but also to obtain new customers. By showing an understanding of what the customer expects in the way of customer service, the bank can set itself apart from those banks that are not as perceptive of the customer needs.

Perhaps, the best test of the practical implications is to solicit responses from those organizations that might use the data within their financial institutions. Donny R. Palmer, Executive Vice President of the Texas Bankers Association noted:

> "Texas bankers could greatly benefit from this individual study…to understand their customer's needs." Palmer (2005) Appendix 4 of this study.

Conclusions

Roger Lawrence, President and Chief Executive Officer of Texas Community Bank, The Woodlands, Texas whose bank participated in the study indicated:

> "…we feel that the information generated will be of substantial value to our bank as well as those banks within the state." Lawrence (2006) Appendix 4 of this study.

Another banker whose bank participated in the study, Jesse H. Gibson, President and Chief Executive Officer, First National Bank, Trinity, Texas found:

> "…we feel the portion of the study that related the bank CEO's perceptions to the customer's expectations gave us a degree of assurance that we understood what our customers sought in the way of service." Gibson (2006) Appendix 4 of this study.

Certainly, there are some difficulties in influencing customer behavior as well as understanding what the customer absolutely expects. While not implying that banks should be "mind readers" this present study provides a method to evaluate the benefits that might be obtained by banks that seek to understand their customers' expectations.

Another practical benefit is the results of this study that service quality is the most important of the five factors in the selection of a bank, however until numerous other factors are compared with service quality in further empirical studies, consumers cannot rule out other factors as being highly significant in the bank selection process. If a bank can determine what factors are most significant to a customer in the selection of a bank, it can develop a strategy to successfully market the organization by emphasizing the desired factors.

Conclusions

Given the evidence that service quality was determined in this study to be the most important factor in bank selection, this should provide an impetus for banks to seriously evaluate the need to make an effort to provide the highest level of service quality to obtain and retain customers. Further, they should also see from the evidence the practical need to not ignore such other important factors as location of the bank facility, service fees, and referrals by others.

The benefit of the results of measuring the tendencies of satisfactory service quality to be associated with outcomes equal to or above expectations has very practical implications. This measurement of customer satisfaction was distinctly different from what early researchers tended to focus on which was the linkage between expectations and perceived product performance (Churchill and Suprenant, 1982). If a bank can meet or exceed the service expectations the practical implications of the evidence would appear to be clear that the customer would either be a satisfied customer or as a possible alternative, the customer did not expect much from its bank; therefore, any delivery above the low expectations would be tolerated. Since there is no way to determine through the respondent results in this study what the customer was thinking, the assumption has to be that the customer would not compromise his/her standards.

Banks and other organizations are constantly seeking means by which they can plot the likelihood of retaining customers. This study offered a method by which a bank could overlay five plots and provide a high likelihood that a bank could reasonably predict the retention of customers by the bank. While there is the need for more empirical study in this area, the overlaid plots consistently show a majority of the plots falling within the high expectations and high perceptions. In those cases where the plots fell below parameters of both high expectations and perceptions, there was a reasonable likelihood of predicting the loss of the customer to another bank.

An interesting practical benefit of this present study manifested itself through the results that pointed to the lack of a significant impact of gender, income, and education on service quality. While a significant effort was made to statistically evaluate each of the items of gender, income, and education, there was a definite lack of importance indicated in the outcomes. Perhaps, this would indicate that there is not as much need to obsess with this issue as earlier thought.

7.5 Limitations of the Study

In spite of an in-depth empirical investigation that seeks to establish a method to predict service quality by examining expectations and perceptions of bank consumers in community banks in the southern United States, this study has its limitations. There are several limitations associated with this study. First, the study is restricted to a specific geographic area as opposed to the entire United States of America. However, the limitation is mitigated when you take into consideration that the state of Texas has over 940 banks chartered within the state, which represents over 10% of all the banks in the United States of America, it could be a reasonably representative sample of the universe. Additionally, two banks from other states were included to determine similarity of responses. Cost and time constraints did not allow for a more extensive data collection. A larger and more representative sample may give broader representation to the measurement of perceptions versus expectations gaps.

A second limitation may result in confining the bank sample selection to community banks, which represents the majority in number of banks within the United States, however the large, multi-regional banks represent the majority of assets held by the nation's banks. Additionally, the study assumed that the respondents were all individual bank customers whose individual perceptions and expectations relating to service quality controlled the account, not taking into account possible joint satisfaction or lack thereof. To the extent the joint decision-making and joint satisfaction are important influences there is a limitation.

Third, regardless of the attention and effort that was placed on this effort, the identified variables may have been influenced by the interests and the knowledge limitations of the customers and banks questioned and thus not be able to be considered exhaustive at this state of the attempts to develop the empirically based knowledge on customer retention.

Fourth, in determining the most important factor in the selection of a bank five specific factors were utilized in the questionnaire, there may be other factors that could also be compared with service quality in further empirical studies because other factors cannot be ruled out as being highly significant in the bank selection process by consumers.

Fifth, while a significant effort was made to statistically evaluate each of the items of gender, income, and education, there was a definite lack of importance indicated in the study's outcomes. Further research might prove valuable in confirming the full impact of gender, income, and education on service expectations and perceptions.

Finally, while the sample provided a substantial number of customers in those banks that facilitated a study of this nature, one cannot generalize the results in other banks not included within the study. Additional research could reveal substantial valuable information in these areas.

7.6 Recommendations for Future Research

Given the limitation of this research and the ideas advanced in this study, there are a number of future research suggestions to be advanced. One of the most prominent suggestions would focus on expanding the geographical reach of this study to include more banks from states outside the state of Texas. While this study aimed to represent a substantial advance to identify through an in-depth empirical investigation a method to predict service quality by examining expectations and perceptions of bank consumers in community banks in the southern United States, there remains a large portion of the universe to be sampled concerning the overall study subject. Therefore, by using the content identified herein as a benchmark, future research efforts can identify additional decision variables pertaining to prediction of service quality and expand the geographic reach of this study.

Since the motivation for this study was provided by a lack of any instrument to predict and evaluate service quality in community banks focused upon retention of customers. As evidenced by Bahia and Nantel (2000) that there were no publicly available standard scales for measuring perceived quality in banks. Additionally, there was a scarcity of literature on empirical or non-empirical studies relating to predicting customer retention. Hence, in light of the developments of the empirical evidence of this study it would appear to be advantageous to further test the Customer Prediction Grid by utilizing more variables and a larger sample.

Future research efforts could focus on the expansion of the content of the prediction process. The detailed questionnaires focused upon identifying the expectations and perceptions of customers as it related to those elements that would influence customer retention. Further, one of the questionnaires aimed at determining banks ability to determine what customers expected from their bank. In spite of the attention and effort that was placed on this effort, the identified variables may have been influenced by the interests and the knowledge limitations of the customers and banks questioned and thus not be able to be considered exhaustive at this state of the attempts to develop the empirically based knowledge on customer retention.

While it would certainly appear from the empirical results of this study that service quality is the most important of the five factors offered to respondents of the study in the selection of a bank, there are numerous other factors that could be compared with service quality in further empirical studies because other factors cannot be ruled out as being highly significant in the bank selection process by consumers. Therefore, in future research efforts it would appear to be advantageous to include additional factors to further test the empirical evidence developed through this research effort.

As an outcome of the study from a practical point of view, the highly competitive nature of banking points to the need for additional information to address means to not only retain existing customers, but also to obtain new customers.

Conclusions

While a significant effort was made to statistically evaluate each of the items of gender, income, and education, there was a definite lack of importance indicated in the study's outcomes. Since this outcome is in conflict with other studies (Howcroft, et al, 2002; Jamal and Naser, 2002), further research might prove valuable in confirming the full impact of gender, income, and education on service expectations and perceptions. Perhaps, a study interrelating services with gender, income, and education might prove to be a better approach to test the three items.

There are shortcomings in the current research approach, and it should be recognized that relationships between the variables such as customer loyalty and customer satisfaction are problematic. In addition, the question of causality is significant, for example does customer satisfaction ensue from loyalty or is it customer loyalty, which causes customer satisfaction? This is a point, which is adequately raised and addressed in the work of Anderson and Sullivan (1993); Cronin and Taylor (1992); Oliver (1993): Taylor and Banker (1994); and Woodside, et al (1989).

A final point, which also needs mentioning, is the focus the study places upon the views of CEOs rather than those of individuals who deliver such services. The rationale for this focus is that the perceptions and views of CEOs influence the organizational culture of community banks. Despite this, the study acknowledges that it might prove invaluable to analyze the views of those individuals who deliver such services, as here we are moving from the ideal view of service quality to that of everyday service encounters where service quality is produced at the level of practices. The study therefore recommends that the views of such front line staff be analyzed in much the same way as studies by Cowling and Newman (1996) and Newman (2001) have demonstrated.

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Appendix 1

List of Banks Selected for the Study

List of Banks Selected for the Study

The First National Bank of Trinity, Trinity, Texas

Peoples State Bank, Shepherd, Texas

Lake Area National Bank, Trinity, Texas

Rio Bank, McAllen, Texas

Brenham National Bank, Brenham, Texas

First National Bank, Huntsville, Texas

First National Bank, Livingston, Texas

Citizens Bank of Texas, N.A., Huntsville, Texas

Legends Bank, Bowie, Texas

Klein Bank, Houston, Texas

Southwest Bank of Texas, Houston, Texas

Welch State Bank, Welch, Oklahoma

Capital Community Bank, Provo, Utah

Bank One, Houston, Texas

Texas Community Bank, N.A., The Woodlands, Texas

Appendix 2

Customer Questionnaire

SMITH-HUTSON ENDOWED CHAIR OF BANKING
SAM HOUSTON STATE UNIVERSITY
P. O. Box 2056
Huntsville, Texas 77341
(936) 294-3722

James B. Bexley, Chair

Dear Bank Customer:

Your assistance is needed. I am studying bank customers' expectations concerning the level of service provided by banks. Additionally, I would like your evaluation of the service provided by your bank (the bank you received this survey from). You have been randomly selected to participate in this survey, and I would appreciate your answering all the questions. Please don't put your name on the questionnaire. No individual answers will be analyzed. Rather, only composite information will be used.

To express my appreciation to participants for completing the questionnaire, I will conduct a drawing for prizes, such as a Magnavox color television set and a Casio portable color television set. To be included in the drawing, please print your name, address, and telephone number on this letter and return it attached to the completed questionnaire. The questionnaire folds into an addressed postage-paid mailer. To protect your confidentiality the letter will be immediately separated from your questionnaire. All completed questionnaires returned within 30 days will be included in the drawing.

If there is any portion of the questionnaire that needs clarification or if you have any questions concerning the study please feel free to contact me at (936) 294-3722. You do not need an envelope to return the survey. Simply fold the questionnaire to show the postage-paid permit which displays the address, tape shut, and mail. No postage is required.

Since the sample size of this survey is relatively small your response is extremely important. Thank you for your assistance in providing this valuable information.

Sincerely,

James B. Bexley
Chair

Name ______________________________________

Address ____________________________________

City _________________________ State ________

Zip Code _________________

Phone Number _______________________________

Service Quality Questionnaire

Section 1

What do you, as a customer, expect from a bank? Please state your level of agreement with each of the following statements from the perspective of what you expect from a bank. PLEASE CIRCLE ONE NUMBER FOR EACH STATEMENT.

	Strongly disagree						Strongly agree
1. A bank should have state-of-the-art technology.	1	2	3	4	5	6	7
2. The physical facilities of a bank should be visually appealing.	1	2	3	4	5	6	7
3. Employees of a bank should be professional.	1	2	3	4	5	6	7
4. The materials in a bank should be visually appealing.	1	2	3	4	5	6	7
5. A bank should deliver on promises in a timely manner.	1	2	3	4	5	6	7
6. The employees of a bank should be sympathetic to solving customer problems.	1	2	3	4	5	6	7
7. The services of a bank should be performed right the first time.	1	2	3	4	5	6	7
8. A bank should deliver their services on time.	1	2	3	4	5	6	7
9. The bank should insist on error-free records.	1	2	3	4	5	6	7
10. Customers should be told by the bank exactly when services will be provided.	1	2	3	4	5	6	7
11. Employees in a bank should give prompt service.	1	2	3	4	5	6	7
12. A bank's employees should always be willing to help customers.	1	2	3	4	5	6	7
13. Employees in a bank should never be too busy to respond to customers' requests.	1	2	3	4	5	6	7
14. The behavior of employees in banks should instill confidence in customers.	1	2	3	4	5	6	7
15. Customers of a bank should feel safe in all their transactions.	1	2	3	4	5	6	7
16. The bank's employees should consistently be courteous with customers.	1	2	3	4	5	6	7
17. Employees in a bank should have the knowledge to answer customers' questions.	1	2	3	4	5	6	7
18. A bank should give customers individual attention.	1	2	3	4	5	6	7
19. The operating hours of a bank should be convenient to all of their customers.	1	2	3	4	5	6	7
20. Employees of a bank should give their customers personal attention.	1	2	3	4	5	6	7
21. A bank should have a customer's best interests at heart.	1	2	3	4	5	6	7
22. Bank employees should understand the specific needs of their customers.	1	2	3	4	5	6	7

Section 2

As a consumer of bank services, please indicate your level of agreement with the following statements describing the level of service provided by your bank. PLEASE CIRCLE ONE NUMBER FOR EACH STATEMENT.

	Strongly disagree						Strongly agree
1. My bank has state-of-the-art technology.	1	2	3	4	5	6	7
2. Physical facilities of my bank are visually appealing.	1	2	3	4	5	6	7
3. My bank's employees are professional.	1	2	3	4	5	6	7
4. The materials in my bank are visually appealing.	1	2	3	4	5	6	7
5. My bank delivers on promises in a timely manner.	1	2	3	4	5	6	7
6. My bank is sympathetic to solving my problems.	1	2	3	4	5	6	7
7. My bank performs service right the first time.	1	2	3	4	5	6	7
8. Services in my bank are delivered on time.	1	2	3	4	5	6	7
9. My bank insists on error-free records.	1	2	3	4	5	6	7
10. Customers at my bank are told exactly when services will be provided.	1	2	3	4	5	6	7
11. Employees in my bank give prompt service.	1	2	3	4	5	6	7
12. My bank's employees are always willing to help me.	1	2	3	4	5	6	7
13. Employees in my bank are never too busy to respond to my requests.	1	2	3	4	5	6	7
14. The behavior of employees in my bank instills confidence in me.	1	2	3	4	5	6	7
15. I feel safe in all my transactions at my bank.	1	2	3	4	5	6	7
16. In my bank, employees are consistently courteous with me.	1	2	3	4	5	6	7
17. Employees in my bank have the knowledge to answer my questions.	1	2	3	4	5	6	7
18. My bank gives me individual attention.	1	2	3	4	5	6	7
19. My bank has convenient operating hours.	1	2	3	4	5	6	7
20. Employees at my bank give me personal attention.	1	2	3	4	5	6	7
21. My bank has my best interests at heart.	1	2	3	4	5	6	7
22. My specific needs are taken care of by the employees of my bank.	1	2	3	4	5	6	7

Section 3

Listed below are five features pertaining to banks and the services they offer. Please allocate 100 points among the five features according to how important you believe each feature is to your bank customers—the more important it is to the customer, the more points you allocate. Please insure that the allocated points for the five features add up to 100 points.

1. The appearance of the bank's physical facilities, equipment, personnel, and communication materials. _____ points.
2. The bank's ability to perform the promised service dependably and accurately. _____ points
3. The bank's willingness to help customers and provide prompt service. _____ points
4. The knowledge and courtesy of the bank's employees and their ability to convey trust and confidence._____ points
5. The caring, individualized attention the bank provides its customers. _____ points

Total points allocated100 points

Section 4

Please give me some personal information that will help in evaluating the data from this study. (*Please check one.*)

Gender: ______ Male ______ Female

Your Age: ______ Below 21 years old ______ 21 to 34 years old ______ 35 to 49 years old
______ 50 to 64 years old ______ 65 years and older

What was your approximate household income in 2001 (before taxes)?
______ Under $25,000 ______ $25,000 to $49,999 ______ $50,000 to $74,999
______ $75,000 to $100,000 ______ Over $100,000

Please indicate the highest level of education you have attained
______ did not complete high school ______ completed high school ______ completed some college
______ obtained a bachelors degree ______ post graduate degree (masters or doctors degree)

In an average month, how often do you conduct business with your bank each month? (*Please check only one.*)
______ one time or less ______ 2 to 4 times ______ 5 to 8 times ______ 9 or more times

Listed below are five ways customers can access bank services. For each, please list the percentage of time you conduct your banking business using that particular option. Please ensure the total sums to 100.
______ bank lobby ______ motor bank ______ automated teller (ATM) ______ internet ______ mail

Please rank from 1 to 5 (with 1 being most influential in your choice) in order of priority for choosing your current bank:

_____ advertising

_____ location

_____ recommendation of others

_____ service charges or fees

_____ service quality.

Thank you for your assistance. Please fold the completed questionnaire with the postage-paid address showing, tape closed, and place in the mail. If you would like to be eligible for the prize drawing, place your name, address, and telephone number in the space provided on the cover letter, leave it attached to the questionnaire.

--

(FOLD ON THIS LINE TO SHOW THE ADDRESS BELOW & PLACE IN U.S. MAIL)

(FOLD ON THIS LINE TO SHOW THE ADDRESS BELOW & PLACE IN U.S. MAIL)

Sam Houston State University
P. O. Box 2056
Huntsville, TX 77341-2056
Member of The Texas State University System
3005

NO POSTAGE
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IN THE
UNITED STATES

BUSINESS REPLY MAIL

FIRST-CLASS PERMIT NO. 27 HUNTSVILLE, TEXAS

POSTAGE WILL BE PAID BY ADDRESSEE

SMITH HUTSON ENDOWED CHAIR OF BANKING
COLLEGE OF BUSINESS ADMINISTRATION
SAM HOUSTON STATE UNIVERSITY
HUNTSVILLE TX 77340-9972

Appendix 3

Banker Questionnaire

Banker Service Quality Questionnaire

This questionnaire is designed to obtain the bank CEO's perceptions concerning customers' service expectations from your bank. As a second part of this study, you will receive customer questionnaires to distribute to a small sample of your bank's customers, which will be coded with a number for your bank allowing us to give you a confidential report. All of the data from reporting banks' customers will be reported in total keeping bank and customer confidentiality.

Do Not Write In This Box

BANK NAME ____

BANK CEO ____

ADDRESS____

CITY ___________________________ STATE _____________ ZIP CODE _______________

Section 1

What do customers expect from your bank? Please state your level of agreement with each of the following statements from the perspective of what you think your customers expect from your bank. PLEASE CIRCLE ONE NUMBER FOR EACH STATEMENT.

	Strongly disagree						Strongly agree
1. A bank should have state-of-the-art technology.	1	2	3	4	5	6	7
2. The physical facilities of a bank should be visually appealing.	1	2	3	4	5	6	7
3. Employees of a bank should be professional.	1	2	3	4	5	6	7
4. The materials in a bank should be visually appealing.	1	2	3	4	5	6	7
5. A bank should deliver on promises in a timely manner.	1	2	3	4	5	6	7
6. The employees of a bank should be sympathetic to solving customer problems.	1	2	3	4	5	6	7
7. The services of a bank should be performed right the first time.	1	2	3	4	5	6	7
8. A bank should deliver their services on time.	1	2	3	4	5	6	7
9. The bank should insist on error-free records.	1	2	3	4	5	6	7
10. Customers should be told by the bank exactly when services will be provided.	1	2	3	4	5	6	7
11. Employees in a bank should give prompt service.	1	2	3	4	5	6	7
12. A bank's employees should always be willing to help customers.	1	2	3	4	5	6	7
13. Employees in a bank should never be too busy to respond to customers' requests.	1	2	3	4	5	6	7
14. The behavior of employees in banks should instill confidence in customers.	1	2	3	4	5	6	7
15. Customers of a bank should feel safe in all their transactions.	1	2	3	4	5	6	7
16. The bank's employees should consistently be courteous with customers.	1	2	3	4	5	6	7
17. Employees in a bank should have the knowledge to answer customers' questions.	1	2	3	4	5	6	7
18. A bank should give customers individual attention.	1	2	3	4	5	6	7
19. The operating hours of a bank should be convenient to all of their customers.	1	2	3	4	5	6	7
20. Employees of a bank should give their customers personal attention.	1	2	3	4	5	6	7
21. A bank should have a customer's best interests at heart.	1	2	3	4	5	6	7
22. Bank employees should understand the specific needs of their customers.	1	2	3	4	5	6	7

Section 2

Listed below are five factors or features that might influence a customer when selecting a bank. Please rate from 1 to 5 (with 1 being most influential choice) the importance of the factors or features in the customers' selection of a bank.

_____ advertising
_____ location
_____ quality of service
_____ recommendation of others
_____ service charges or fees

Section 3

Please indicate the asset size of your bank. (*Please check one*.)

Bank Size: ______ under $50 million ______ $50 to $74 million ______ $75 to $99 million
______ $100 to $259 million ______ $250 to $500 million _______ over $500 million

Section 4

Please indicate the services offered by your bank. (*Please check all that apply*.)

_____ checking accounts _______ savings accounts _____ money market accounts
_____ certificates of deposit _______ insurance services _____ investment services
_____ internet banking _______ trust services _____ other: specify ___________________

Section 5

Please indicate the degree of importance for each of the following statements by circling one number for each statement.

	No Importance						High Importance
1. Emphasis placed upon customer retention.	1	2	3	4	5	6	7
2. Use of focus groups to obtain customer input.	1	2	3	4	5	6	7
3. Use of customer surveys to solicit customer responses.	1	2	3	4	5	6	7
4. Use of customer problem/complaint resolution program.	1	2	3	4	5	6	7
5. Use of customer calling/contact program.	1	2	3	4	5	6	7
6. Emphasis placed upon quality service program.	1	2	3	4	5	6	7
7. Use of an annual strategic planning program.	1	2	3	4	5	6	7
8. Emphasis placed on internet banking.	1	2	3	4	5	6	7
9. Level of emphasis placed upon obtaining new customers.	1	2	3	4	5	6	7

Due to time constraints on the study, we would appreciate your completion of this questionnaire within 10 days, returning it to **James B. Bexley, Chair, Smith-Hutson Endowed Chair of Banking, P.O. Box 2056, Huntsville, TX 77341.** If you have any questions please feel free to call me at (936) 294-3722 or e-mail me at jbbexley@shsu.edu or you may fax the form back to me at (936) 294-1523.

Thank you for your assistance. Your customer surveys will be mailed upon receipt of your completed questionnaire.

Appendix 4

Endorsement Letters From Bankers and Banking Associations

Texas Bankers Association

September 6, 2005

Mr. James B. Bexley
Chair
Smith-Hutson Endowed Chair of Banking
Sam Houston State University
Box 2056
Huntsville, TX 77341-2056

RE: Customer Service

Dear Jim:

The Texas Bankers Association has been actively involved in educating Texas bankers on this important issue for some time. While we offer various topics and seminars in this area it has proven to be an effort to make bankers aware of the need to survey customers in their respective markets.

A few banks have initiated customer service studies but most do not really know the scope and complexity of their needs. We find this issue to be almost a "topic of the month" where banks apply an effort in a shotgun approach that quickly fades away with the next item of interest because they do not obtain the needed data.

Texas bankers could greatly benefit from individual studies for their various markets to first understand their customer's needs and then initiate a plan and schedule for implementation and accountability. The few banks that have enlisted professional help are clearly ahead of the curve in dealing with most levels of competition.

Please let me know if you have plans to concentrate in this area and TBA will be glad to assist as needed.

Sincerely,

Donny R. Palmer

Donny R. Palmer
Executive Vice President

203 W. 10^{th} St.
Austin, TX 78701-2388

www.texasbankers.com

512-472-8388
Fax 512-473-2560

TEXAS COMMUNITY BANK, N.A.

September 7, 2005

James B. Bexley, Chair
Smith-Hutson Endowed Chair of Banking
Sam Houston State University
P. O. Box 2056
Huntsville, TX 77340

Dear Jim:

Our community bank participated in your study of customer expectations versus customer perceptions, we feel that the information generated will be of substantial value to our bank as well as those banks within the state. I would think this application relating to quality service delivery to all community banks.

It will be interesting to see the overall results of the bank management's perceptions of the customers' expectations.

Yours truly

Roger Lawrence
President/CEO

16610 INTERSTATE 45 ~ THE WOODLANDS ~ TEXAS 77384
PHONE (936) 271-7000 ~ FAX (936) 271-7001

1st NATIONAL • • • TRINITY

P. O. BOX 792 • • • TRINITY, TEXAS 75862

(936) 594-2564

September 6, 2005

James B. Bexley, Chair
Smith-Hutson Endowed Chair of Banking
Sam Houston State University
P. O. Box 2056
Huntsville, TX 77340

Dear Professor Bexley:

As one of the participating banks in your study of customer expectations versus customer perceptions, we feel that the information we obtained from the results have been very beneficial to the bank. Also, we feel the portion of the study that related the bank CEO's perceptions to the customers' expectations gave us a degree of assurance that we understood what our customers sought in the way of service.

Sincerely,

Jesse H. Gibson
President/CEO