Service Quality and Market Performance of Bulgarian Banks

by
Nadezhda Kalinova
University of Economics, Varna Bulgaria
n.kalinova@ue-varna.com

Abstract: This paper seeks to scrutinize major bank marketing issues in Bulgarian bank market and especially bank service quality. A combination of secondary and primary data is used to research and diagnose the business and marketing results of leading banking brands in the country. The author suggests a balanced pool of key performance indicators including financial and market measures. An emphasis is put on the specifics of bank services and a number of threshold factors influencing customer satisfaction. The research process combines a broad review of bank stress tests and brand study scales and approaches, including Forbes rating, Interbrand ratings, World Bank data, Mystery Shopping reports etc. Primary research, is applied to collect data for market performance, including service quality. The author concludes by summarizing Bulgarian bank brands’ financial performance in the context of the Bulgarian bank market situation. By a complete examination of the financial sector the article closes with an overall assessment of banks’ market performance.

Key words: bank services, service quality, bank market performance
JEL classification: M31

1 Introduction

The current situation all around contemporary markets worldwide and the severe consequences of the global financial crisis urged drastic changes in the service sector. With an increasing pace services transform into customer-focused, experience-oriented endeavors. This course of change leads towards the need of complete personalization and interaction with clients. Service quality innovation results when a company is capable of concentrating all its energy on thinking entirely in favor of customers for an outcome that surpasses customers’ expectations of superior value. Nowadays, it’s more important than ever before to build more unique relationships with customers. Furthermore, the importance of market orientation as an antecedent to improve organizational performance and profitability is widely recognized (Awaad, Agti 2010) particularly in the financial service industry (Dwairi et al., 2007). Maintaining good market performance and delivering high quality services require systematic observation, measurement and control of business performance and service quality (Uppal 2010). Nowadays services are a main part of total economic activity in many markets. In Bulgaria their share in the GDP of the country exceeds 50% during 2012 and reaches 61.2% in 2013, total value added generated in 2012 by the sectors “real estate, renting and business activities” and “trade and repair business” (Bulgarian National Bank, 2013). The number of managers and consultants that have recognized the importance of the service delivery process as a key element in building (or destroying) customer satisfaction, and thereby, customer retention (Wilson 2000) increases constantly. Because of growing concern over whether they are really satisfying their customers, more service firms, including banks have been using different techniques to measure and control service quality. The focal points of the present study are the specifics of services and especially bank services and the traits of service quality. In addition, prime role financial indicators are added to inject completeness in the analysis of the overall state of banks. The authors’ aim is to provide a brief analysis on the dimensions of bank service delivery and financial results, and give an example of the mechanics of measurement through combining different techniques for service quality measurement with financial performance indicators.
2 Banking Services

The words “service” and “product” are used interchangeably in banking parlance. The reason is the fact that banking services are a combination between specific bank products (such as deposits, credits, transactions, credit and debit cards etc.) and the way/manner in which they are offered. Consequently, bank services can be expressed but are difficult to measure because they are intangible (Uppal 2010). A good bank product is not competitive without a proper quality service. Service priority in banking is directly related to managing customer satisfaction and retention levels. A constant control of bank services is demanded because of their influence on banks’ market performance indicators. Moreover, the main function of banks is not only to attract a bulk of new customers but also to deliver effective financial services in order to retain them. Research review shows that financial performance and marketing performance are detrimental to the smooth development and functioning of any business organization (Dwivedi 2007). Customer satisfaction is identified as a key performance indicator for success in the banking sector (Gupta 2007). Malik (2007) explained the importance of human capita for efficient banking pointing out different aspects of human resource development in banks. Unraveling how and what aspects of the service impact on customers' evaluation is a critical first step for service companies (Zeithaml et al., 1996). There are a number of service attributes, recognizable in banks which have been identified as contributing towards the customer's overall evaluation. Some of them are the service environment (Bitner, 1990), service employees (see Bowen and Lawler, 1992; Bowen et al., 1989), and the impact of other customers (see Booms and Bitner, 1981; Langeard et al., 1987). The problem with discussing “how” the bank service is delivered is that there are both soft and hard components of the delivery process. While we can prescribe many “hard” aspects of the process, including the sequence of events, the associated behaviors and even the words used, there are also many “soft” elements of the service encounter, which cannot be prescribed and can dramatically alter the way that the customer perceives the service (Vasileva 2009).

One of the most widely discussed concerns about service provision is the assessment and assurance of quality (Davis et al. 1999). Kordupleski et al. (1993) proposes that it would help in the understanding of quality if we differentiate between customer-perceived quality, which they term “true quality” and business process quality, which they term “internal quality”. This “true quality” is evaluated by the consumer during and after the service encounter. Differences between expected and perceived performance give rise to disconfirmation – either positive or negative (Redman and Mathews 1997). This appears to be the main theoretical underpinning of service quality models (e.g. Berry et al. 1985; Grönroos 1984; Zeithaml et al. 1990). Zeithaml et al. (1996) propose that understanding how and what aspects of the service delivery impact on customers' evaluation is a critical first step. In their research they investigate the service delivery as a combination of “hard” (“internal quality”) and “soft” (“true quality”) elements. The “hard” aspects are connected with the process, including the sequence of events, the associated behaviors and even the words used, thus easy to be determined, while the “soft” elements of the service encounter cannot be prescribed and can dramatically alter the way that the customer perceives the service. The “soft” elements are concentrated on the individual service provider and the interpersonal exchange with the customer. This aspect of the soft process presents the greatest challenges to researchers as they embody the full range of inter-personal behavior and also tend to be highly heterogeneous.

No single “element” can provide managers with a clear indication of overall bank process performance and report on the critical areas of bank service delivery. As a result, organizations use a variety of performance indicators, reflecting their different objectives and competencies (Wilson 2000). They are a combination of financial indicators (deposit,
credits, profitability, 1st tier capital, return on equity etc.) and commonly used indicators including customer satisfaction data, mystery shopping scores, operational measures, number of customers handled, number of meals served, sales data, profitability, customer retention information, number of complaints, etc. The traditional view (Teague and Eilon 1973) of performance measurement is that it has three broad purposes: (1) to ensure the achievement of goals and objectives; (2) to evaluate, control and improve procedures and processes; and (3) to compare and assess the performance of different organizations, teams and individuals. Measurement is seen as a relative rather than an absolute process, and it is comparison that provides the meaning for measurement (Crowther 1996). Such comparison may be undertaken temporally (by enabling the comparison of one time period against another); geographically (by enabling the comparison of one unit against another); or strategically (by enabling the forecast consequences of alternative courses of action to be compared). Because it is essential to assess comparatively a quantitative approach to measurement is generally necessary, even if some aspects of performance are, by nature, qualitative. Parasuraman (1995 p. 145) points out that the dominant mode of thinking in the measurement of quality in services rests on a disconfirmation view, which links the expectations of consumers with their experience of the service. The most widely-used measure has been the SERVQUAL measure of Parasuraman et al. (1985; 1988; 1991). According to Zethaml and Parasuraman the measurement of service quality is aimed at identifying the gaps between expectations and perceptions or the shortfalls in customers’ perceptions of services’ performance. In its essence SERVQUAL is developed as a models which allows quantifying expectations and perceptions on five dimensions as follows: Assurance, Empathy, Reliability, Responsiveness and Tangibles. Known as the “universal scale designed to measure the perceived service quality” (Bahia, Nantel, 2000). A further model applied in banking performance measurement is Technical/Functional Quality Models. The two main points in this model are the quality of the product which is offered and the way in which the service is provided. Still other quality model is SERVPERF. Essentially, this approach is similar to Parasuraman’s SERVQUAL with the exception that it captures primarily performance measures without considering expectations. There have been a number of studies critical of this measure of aspects of it (see, for example, Cronin and Taylor 1994; Teas 1993; 1994) but it remains the point of departure for many researchers and managers. To sum up, Lewis (1995) identifies three areas of difficulty in service quality measurement: (1) methodological problems relating to the dimensions; (2) variations in customer expectations; and (3) the nature of the measurement tools. In addition, critical factors in bank service offering are personnel attributes, quality of interpersonal interaction and technology (Radomir et al 2001). Alternative service quality measurement tools Variations in service performance can have a major impact on customer satisfaction. As it was already mentioned one of the factors that distinguish services from products is perishability (Dale 2003) and intangibility. It is this aspect that makes it important to capture and measure a service at its point of delivery, rather than after the event, in order to ensure reliability (Harris 2000). The quality of any of the service encounters, or “moments of truth” (Carlzon 1989) experienced by customers forms part of their overall impression of the whole service provided (Dale 2003) and, by implication, their impression of the organization itself. In the management of service quality, organizations need to have in place appropriate mechanisms for measuring and monitoring the success of the service offered as well as ways in which they can recover from any service failure, in order to succeed in the competitive environment (Blackmore 2005). Following the PDCA cycle, once the goals (the “what’s”) for service quality have been established, one of the ways to monitor quality of service delivery is to monitor the process or parts of the process itself (the
“how’s”). Dale (2003) argued that it was critical that an organization had in place systems to monitor and measure success of service delivery and identified both employees and customers as judges of this quality. In order to achieve reliable data which could further be used to plan, control, and implement firms’ quality programs it is desirable that this measurement fulfills the principles stated by The Honeywell Quality Improvement Owner’s Manual (cited in Aaker et al. 1995, p. 746). Some of these principles include: (1) measurement must be specific; (2) measures can be applied to all performance dimensions, external as well as internal; (3) measure process as well as results; (4) there is no single perfect measure. One of the basic proactive methods of monitoring the process performance as well as the quality of a service is via a method of inspection. This entails one individual monitoring the behavior of another by watching and listening to how they perform, i.e. performance appraisal (Wiele et al. 2005). Mystery shopping could be considered as a form of inspection, a technique which is frequently used by service organizations to measure performance against pre-set quality standards (Wilson 1998). Roger Mayland, VP of Martiz’s Quality Controlled Services Division, defines mystery shopping as a “process for measuring service quality, with feedback, that is understandable to the front-line people” (cited in Erstad 1998, p. 34). In broader sense, in a mystery shopping study, the front-line operations of a business are evaluated by an anonymous trained observer. In research terms it is a form of participant observation, or “disguised observation” (Hair et al. 2003), or inspection (Blackmore 2005). The mystery shoppers taste the customer experience firsthand with the instruction to test it methodically, usually against a specific service standard (Wilson and Gutmann 1998). The mystery shopping approach is being used to measure the process rather than the outcomes of a service encounter. Unlike customer satisfaction surveys, the mystery shopping aims to collect facts rather than perceptions. The benefits of mystery shopping are quite obvious in the sense that it is a useful control tool, but it does have value as a recognition tool as well. It can often be difficult to assess the merits of employees for recognition as “suppliers” of excellent customer service. Customer feedback may be insufficient in quantity or too general in quality to properly determine an employee’s performance and gaps in the process of service delivery. Perhaps the greatest benefit of the recent advancements is that they have freed up mystery shopping companies from the systemic aspects of producing reams of paper reports and let them focus more on meeting their customers’ needs. Other important benefits include: (1) improved reporting turnaround times, from as much as three or four weeks to just 24-72 hours; (2) more accurate report validation and verification capabilities; and (3) integrated reporting for multiple customer touch points, such as on-site, telephone and Web-based evaluations. Mystery shoppers (sometimes also referred to as secret, phantom, or anonymous consumer shoppers) to assess the performance of their sites/shops (Cobb 1995; Dwek 1996). Mystery shopping uses trained researchers to act as customers or potential customers of an organization with the intention of monitoring and assessing the quality of the customer service experience, and the processes and procedures used in the delivery of the service (Wilson 1998, 2001; Calvert 2005). It gives organizations fact-based information from people thoroughly educated on what to look for in advance of conducting an evaluation. Organizations can use the feedback in a variety of ways, with typical uses being the improvement of service processes, or the improvement of staff behaviors, with the primary intention being to make the customer’s next experience of the organization better than it was before. Pioneered in the United States by Shop’n Chek (Moores 1996), the fully developed approach have emerged in the early 1980s and rapidly became accepted practice in private sector service industries such as banking, retail, and hospitality (Calvert 2005). It quickly gains popularity and wider application. As a research technique mystery shopping has frequently been used in many industries and industry sectors such
as banking, retailing, healthcare, e-commerce, hospitality (hotels and restaurants), transportations, government agencies, franchise operations and many others (Wiele et al. 2005).

3 Methodology and results

In order to give a precise review and evaluation of bank market performance the author combines techniques for primary and secondary data collection. The survey is based on a few of the crucial attributes and models of service quality that are discussed in detail in the literature review of the article. In order to measure service quality we combine mystery shopping tools and SERVEQUAL primary survey questionnaires. The design of the study includes the following major service quality indicators: the service environment (see Bitner 1990), service employees (see Bowen and Lawler 1992; Bowen et al. 1989), the impact of other customers (see Booms and Bitner 1981; Langeard et al. 1987), product functional and rational value (Khan, 2010). They are selected with the clear purpose to deliver a comprehensive indication of the actual state of bank service quality in Bulgaria. The research model (Figure 1) demonstrates the influence of service quality on banks’ market performance. The feedback from market, results back to “hard” and “soft” indicators of service quality points the importance of regular revision and correction in service quality. The study is limited to applying service quality evaluation techniques in the Bulgarian financial sector and revising basic financial performance bank indicators. It does not examine the correlation between the state of service quality and the value of financial indicators. The research approach includes a preparatory stage and two separate stages of primary data collection. During the preparatory stage the author conducted a secondary data revision and prepared and tested a questionnaire for service quality measurement. The instruments used are modified from a former similar survey (Vasileva, 2009). The questionnaires were developed using modified SERVQUAL instrument, which is considered to fit the context with dominant customer-to-staff interactions. Their design was adjusted to the assessment criteria and specific attributes of bank services and in accordance with recommendations given from bank managers, representatives of leading Bulgarian Banks. The questionnaires were divided into sections the first primary data collection stage began in January 2013 and continued for a month. During this stage, 124 bank offices, all around Bulgaria were visited and evaluated by mystery shoppers (volunteering students) using paper based questionnaires. The questionnaires were designed to measure functional and technical quality applying the SERVEQUAL approach. During the second stage, from the 1st of April to the 30th of May 2013, 98 more bank offices were monitored. The author used the longitudinal research technique in order to observe bank service in the long run and detect major traits of Bulgarian bank services’ quality. Bank offices of 5 of the 10 market share leading banks in Bulgaria were chosen. In this study the author predominantly examines customer-to-staff interactions (Dedeke 2003), including responsiveness, empathy, flexibility and last but not least the functional value of the products (Khan, 2010). A standard percentage based scoring system was used. In addition to the service quality evaluation the author makes a brief analysis of the bank market context in Bulgaria. All the bank institutions included in in the primary research panel are also assessed by a few financial key performance indicators. The reason is the purpose to measure bank market performance via a combination or service performance data and financial performance data and to compare perceived service quality with market performance indicators.

4 Results

The bank system in Bulgaria is characterized as a system with a slow growth and undigested potential. This tendency is expected to continue over 2014-15. Banks’ balance sheets for 2013 displayed a slow expansion. In 2013 some important consolidations took place in the sector that clearly highlight the start of the
consolidation process. This resulted in two acquisitions of foreign banks’ subsidiaries by domestically owned subsidiaries. On the surface, banking environment is marked by a maintained macro financial stability. As a whole, the sector has withstood the crisis well due to strong financial supervision, conservative provisioning and a buildup of capital buffers. Despite that, the levels of non-performing loans in Bulgaria has risen drastically since 2009 but is now starting to stabilize (Figure 3). The average non-performing loans in 2013 were about 17%.

Banking assets concentration in the Bulgarian financial sector is very close to the average levels for Central and Eastern Europe. Consequently the sector is comparatively consolidated. Even so, merges and acquisitions activity is expected to increase in the years to come because international players will continue to leave due to their strategic refocus and the limited opportunities for them. Moreover, there are still too many universal banks in Bulgaria. Payment methods in banking evolve and innovations are steadily introduced in Bulgaria. The technological wave creates an abundance of opportunities and threats. It brings about the rise of product substitutes in the financial sector and the changing needs of bank clients. So, banks are facing more challenges, apart from meeting the requirements for capital adequacy ratio (CAR).

To sum up, Bulgarian banks apply a risk-aware approach, through cost optimization and deleveraging assets. Forecasts indicate the sector is expected to undergo a series of changes. A priority is the minimization of the gap between the assets’ value on the balance sheet and its recoverable amount. The bank institutions included in the primary and secondary survey are DSK Bank, UBB, Post Bank, Raiffeisen Bank and Unicredit Bulbank. They are among the first ten banks rated at market share indicator. Table 1 points out the researched banks’ indispensable financial indicators. The values displayed in the table are for the year 2012.

As the table displays, the market leaders in financial results are Unicredit Bulbank and Banka DSK. They maintain high financial stability, above the required by the financial regulator- Bulgarian National bank. Additionally they posses an very large bank office network, which means they are closer to customers. Extremely important part of the analysis of bank market performance is service quality. It is assessed with “hard” and “soft” indicators. The researcher uses: external and internal appearance, in the hall, at the desk and impression.

The interpretation of the gathered primary data outlines a gap between the components of service performance. Among the most important findings is the gap between financial and service performance. It is clearly recognized in the results is DSK Banka. The bank has e very highly rated financial performance and the lowest service quality rate among the other banks. Despite its low score on service quality (82.58%) Bank DSK (Figure 3) is one of the leading Bulgarian bank in the market in terms of market share and assets. On top of that, four of the banks are close to the critical minimum of 81.7% for service quality. Only Unicredit has a satisfying overall result of 94.06 %. Easily recognizable are UnicreditBulbank’s service execution “At the desk”, with a score of only 90.3 %.

5 Conclusions

Success, excellence and sustainable growth in banking today require a commitment to excellence in financial performance, customer service and technology. If competitiveness and leadership is the goal, anything less is unacceptable. Achieving such a challenging goal requires continual planning, control, and improvement of the overall market performance. This means constant supervision and evaluation of key performance indicators. The paper demonstrated a combination of mystery shopping approach to measuring quality of service and a selection of key financial indicators. The result has been sufficient to justify the synergy between service quality measurement and financial indicators. Together they form an effective tool for assessing market performance. The author suggests that suggestion that an organisation can assure high
service quality if it designs its systems around critical customers’ encounters was also confirmed. There seem to be three potential areas where this approach can be especially valuable. First, regular assessment at given sites to detect trends of perceptions of service quality over time. Second, ad hoc and rapid measurements at specific sites in order to aid management to trouble-shoot quickly as problems surface. Third, applications involving identification of critical success factors and KPIs for better service quality.

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Author description

Nadezhda Kalinova is an assistant professor and a PhD student in Marketing Communications and International marketing, at the University of Economics-Varna, Bulgaria. The research interest fields of the author include bank marketing and interactivity.