

Importance of the Quality of Banking Products and Services

Značaj kvaliteta bankarskih proizvoda i usluga

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Abstract: In the contemporary circumstances of globalisation and deregulation of the financial sector, banks are facing great changes in their business environment. In times of continual growth of market and competition, understanding the needs of clients and their meeting is one of the most important factors that condition survival of banks on the market. This paper examines dimensions of the quality of banking services, and for that purpose research was conducted within which users of banking services evaluated their quality. The aim of the paper is to point to the importance of the quality of banking services for the sake of bank dealings themselves and the obtained results may suggest to bank management what corrections are needed in their activities in order to improve them.

Key words: bank, services, users of services, quality dimensions, evaluation

Rezime: U savremenim uslovima globalizacije i deregulacije finansijsko sektora, banke se suočavaju s velikim promenama u poslovnom okruženju. U vreme stalnog rasta tržišta i konkurencije, razumevanje potreba klijenata i njihovo zadovoljavanje postalo je jedan od najvažnijih faktora koji uslovljavaju opstanak na tržištu. U ovom radu ispituju se dimenzije kvaliteta bankarskih usluga i u tu svrhu je sprovedeno istraživanje u okviru kojeg su korisnici bankarskih usluga ocenjivali njihov kvalitet. Cilj rada je ukazivanje na značaj kvaliteta bankarskih usluga za samo poslovanje banke, a dobijeni rezultati mogu da sugerišu menadžmentu banke šta je potrebno da koriguju u svom poslovanju kako bi ga unapredili.

Ključne reči: banka, usluge, korisnici usluga, dimenzije kvaliteta, ocena

Introduction

On the contemporary banking market there is a very stiff market competition which banks may win only if they fully understand the needs of users of services. Due to that, modern banks have shifted from product-based strategies to those oriented to users of services. Delivering high-quality services enables a bank to attain its core business

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objectives—client satisfaction, productivity, financial operating and profitability (Đorđević, 2009). The globalization and liberalization of the banking sector along with the rapid technological developments have intensified the competition and created a dynamic and unstable environment (Noulas & Glaveli, 2002). Today, more than earlier, banks are aware that success is possible only if they differentiate their products from the products of their competition and if, in addition to innovation, those products meet the needs of users from the aspect of quality. It is increasingly difficult to obtain a competitive edge on the banking market through marketing mix elements, as even the most specific forms of promotion can easily be copied, reduction in price directly diminishes profit, and opening new distribution channels is costly. As far as the diversity of banking services is concerned, innovations are getting scarcer as the supply is already abundant. The only way of differentiation from competition is quality management in all aspects of banking operations (Marinković & Senić, 2012). It is imperative for banks to shift their attention in delivering exceptional service quality for attracting (Arasli et al., 2005) and retaining loyal customers (Kranias & Bourlessa, 2013).

The subject of this paper is defining the notion of quality of a banking service, overview of basic components of the quality of banking services and evaluation of their importance to clients. The research that was conducted included 80 respondents from the territory of the municipality of Bač, of both genders and of different age, lifestyles, occupations and level of education. All respondents completed a questionnaire in which they evaluated different determinants of the quality of banking products and services within a 1–5 grade scale. The aim of the results of the survey is to indicate to bank management teams which quality determinants are particularly highly valued by clients and if they are satisfied with the offered quality of services.

1. Literature review

The word “quality” originates from the Latin word “qualis”, “qualitas”, meaning “how to perform”. The very notion of quality relates to the properties of a product that meet the needs both of individuals and society as a whole. There are a great number of definitions of quality and one of broadly accepted ones is the definition of the American Society for Quality: “Quality is an entirety of properties and characteristics of a product or service shown by its ability to meet the stated or indicated needs” (Kotler, 1997, p.55). The quality of banking products and services can be defined as an “aggregate of all attributes and characteristics of banking products or services relating to their possibilities of meeting the determined or expressed needs of their users” (Vunjak, Ćurčić & Kovačević, 2011).

Banks are aware today that quality yields numerous benefits and ensures competitive advantage, and that the user of services should be given priority. Speaking about banking products and services, we can distinguish between qualitative and quantitative benefits from quality improvement. When quantitative advantages are

observed, it can be said that quality can increase bank gain. As far as qualitative advantages are concerned, it is found that quality increases user satisfaction, and user satisfaction affects operating results, image of the service-rendering organization and attracting new users through direct recommending. In addition to that, satisfied users share their experience with five to six persons on average, whereas dissatisfied users do that with ten other persons, and attracting new users is more costly for a bank than keeping the existing ones in terms of money, time and other assets.

According to some studies, financial services fall within a category of services seen by users as a necessary evil, as they are required to be highly involved and because services themselves pose a great risk (Đorđević, 2009). It is due to the previously stated that banks must pay special attention to the quality of services they deliver as they differentiate themselves from their competition with them. The client is the principal driver of changes in the existing products and of introduction of new products and services in bank range of products and services (Severović, Žajdela & Šoštarić, 2009). That is why it is necessary to segment the market, identify target groups and, on the basis of that, develop an appropriate marketing mix. That way, banks will make a satisfactory profit. Quality has a key role in that process. Nowadays, a banking service consumer sees the quality of a financial service as a continuous improvement in the quality of service measured by the increase in or retaining the existing level of satisfaction (Meidan, 1996).

Based on the perception of quality, clients will decide whether they will keep their bank or change it. Quality of services is one of the most important “triggers” of customers’ loyalty and it generates a significant scope of interest among researchers and practitioners (Marinković & Senić, 2012). In order to increase client loyalty, the bank should make efforts to build a higher and superior quality. Beside greater loyalty, benefits the superior quality yield are: (Buzzell & Gale, 1987) greater chances of performing recurring activities, as well as new activities, reduction in vulnerability in the domain of prices in cut-throat competition, greater ability to dominate the market with relatively high prices, lower marketing costs and greater chances of a faster increase in the market share.

2. Factors and dimensions of quality

According to Parasuraman et al. (1988), the perceived service quality is defined as a global judgment, or attitude, relating to the superiority of the service (p. 16) that results from the difference between customer expectations about the service and their perceptions about the actual service received (Asubonteng et al., 1996). Quality of service usually comprises the manner in which the service is delivered, as well as the result for user. The research conducted suggests that main service quality determinants include the following ten factors (Ćurčić & Barjaktarović 2010):

1. Reliability – includes consistency in performance and dependence. That means that a bank delivers the right services at the right time and keeps its promises;
2. Responsibility – relates to the willingness or knowledge of the staff in the provision of services;
3. Competence – implies possession of required skills and knowledge to deliver the service;
4. Access – includes accessibility and easiness in establishing contact. That means: an access to service is easily made by phone (lines are not busy and waiting time is not charged), waiting time to receive a service is not long, convenience of office hours and of service equipment location;
5. Courtesy – includes politeness, attentiveness and understanding demonstrated by contact personnel;
6. Communication – implies keeping users informed in an easy-to-understand language and listening to what they say relating to the explanation of the service, explaining the service-cost relationship and assuring users that an issue will be effectively managed;
7. Credibility – relates to reliability, confidence and frankness and results in satisfying interests of clients;
8. Security – relates to transactions free from threats, risks and doubts;
9. Understanding-knowing the user – involves making efforts to understand the needs of users;
10. Tangibles – relates to physical ability, staff appearance, devices and equipment used in provision of services and similar.

Clients decide on the quality of banking products and services on the basis of the following quality dimensions (Zelenović, 2012):

- Time – How long does the user have to wait for the service and how long does it take to deliver it?
- Timeliness – Will the service be delivered at the agreed time?
- Completeness – Has the service been delivered completely?
- Courtesy – Relates to the person delivering the service.
- Consistency – Is the service always delivered and to each user the same way?
- Availability and convenience – How to obtain a service?
- Correctness – Is the service delivered in an appropriate way?
- Responsiveness – How fast personnel responds to unexpected difficulties?
- Numerical accuracy – Bank accuracy in transferring funds.
- Neatness – Cleanliness of premises in which clients are received.

Obtaining new customers and holding current customers have always been considered as two main approaches in service organizations (Akhlaghi, Amini & Akhlaghi, 2012, p. 5285). Munusamy et al. (2010) stated that customers' satisfaction and service quality are closely related. "The higher the service quality, the higher is the customer satisfaction" (Munusamy et al., 2010, p.400). The SERVQUAL model, developed by Parasuraman, Zeithaml and Berry, is the most commonly applied model of measuring consumers' perception of the quality of delivered services (Đorđević, 2009) and it is applied in numerous areas. The model is comprised of five main dimensions that measure both the perceptions and expectations of the customers about quality of service rendered by a given service provider (Abdelghani, 2012, p.63), and these are: tangibles, reliability, responsiveness, assurance and empathy. It comprises 22 test questions to which users of banking services give answers and on the basis of them further analysis is made. These five dimensions are defined by Lim, Tang and Jackson (1999) as follows:

1. Tangibles: physical facilities, equipment, external appearance of store and appearance of personnel;
2. Reliability: company's potential of performing the promised service dependably and accurately;
3. Responsiveness: company's willingness to help customers and provide prompt service;
4. Assurance: employees' knowledge and courtesy levels and their ability to inspire trust and confidence. This dimension also includes competence, courtesy, credibility, and security;
5. Empathy: caring and personalized attention that the firm provides to its customers. This dimension also includes access, communication and understanding the customer.

SERVQUAL by Parasuraman et al. (1985, 1988) defined service quality through the gap between customers' perception and expectation of the company's service quality performance. For the conclusion, a service quality was built from expected and desired quality (Bakiet al., 2009). Therefore, the SERVQUAL model is widely used in studying the customers' perception of the services they received from the various service providers, as well as their expectations in the future use of the service (Carrillat, Jaramillo & Mulki, 2007). After measuring clients' expectations and their perception of an actually delivered service, a (perception-expectation) gap is determined, which can be either positive or negative. According to Yousapronpaiboon (2014, p. 1089) a positive gap score implied that expectations have been met or exceeded, service quality is perceived to be satisfied and a negative gap score implied that expectations have not been met, quality is perceived to be unsatisfactory.

Although this model is widely accepted, it has also been subjected to a number of criticisms. They predominantly relate to the conceptual and methodological aspect of the model. One of the major criticisms is on the number and meaning of determinants relating to quality. Cronin and Taylor (1992) indicated that service quality could be best measured based on three factors namely, expectations, performance and importance of several service characteristics such as equipment and service environment, employees' appearance and performance and service delivery. Gounaris et al. (2003) argued that the SERVQUAL model mostly assesses customer perceptions about employees and service environment while it does not account for other critical elements of the service quality such as product innovativeness and price. Kang and James (2004) argued that SERVQUAL focuses more on the service delivery process than on other attributes of service, such as service-encounter outcomes (i.e. technical dimensions). In other words, the SERVQUAL measurement does not adequately explain a technical attribute of service (Ravichandran et al., 2010, p.118). The most frequent criticism SERVQUAL was exposed to is as follows: (Buttle, 1995, p.10)

- Paradigmatic objections: SERVQUAL is based on a disconfirmation paradigm rather than an attitudinal paradigm; and SERVQUAL fails to draw on established economic, statistical and psychological theory.
- Gaps model: there is little evidence that customers assess service quality in terms of P – E gaps.
- Process orientation: SERVQUAL focuses on the process of service delivery, not the outcomes of the service encounter.
- Dimensionality: SERVQUAL's five dimensions are not universal; the number of dimensions comprising SQ is contextualized; items do not always load on to the factors which one would a priori expect; and there is a high degree of intercorrelation between the five RATER dimensions.

In order to become distinctive on the market, a bank has to offer higher-quality services than its competition. When selecting a bank, clients are led by the stated principles and they compare the received service with the expected service. If the received service satisfies clients' expectations or exceeds them, clients remain loyal to their bank. Contrary to that, they leave the bank. Users' satisfaction has a direct effect on their loyalty to the service provider. Therefore, the ability to provide high-quality service that will meet or exceed the needs and expectations of the clients, in banking and in other segments of service economy, stands as the basis for gaining competitive advantage (Ennew and Waite, 2007, p. 312). The profitability of bank lies on long-term relationship with customers and services offered to them (Pramanik, Prakash & Prakash, 2011, p. 275). In order to increase customers' service loyalty, banks have introduced a number of innovative products and services (Alam & Khokhar, 2006).

By conducting a survey on the quality of services they deliver, banks can determine the level of quality of services required by users, measure the current level

of quality of their services, as well as direct their business strategies in a direction that would enable them a better positioning on the market (Radojević & Marjanović, 2011). Most of the researchers agree that service quality impacts loyalty indirectly via satisfaction (Jamal & Anastasiadou, 2009) whereas a number of studies have proved the direct impact of service quality on loyalty (Kranias & Bourlessa, 2013, p. 454).

The answer to the question which and what quality improvement would contribute to service users' satisfaction to a maximum extent can be obtained through different surveys. In seeking the answer, it is possible to conduct (Radojević & Marjanović, 2011):

Comprehensive surveys, with an aim of measuring the quality of services by including as many clients as possible. They are conducted on an annual level. Such surveys give information on client expectations, as well as on the quality of services of competition.

Post-transactional surveys serve to test quality immediately after the delivery of service. Data can be collated electronically by using touch screens and similar tools, and a great number of banks use incentives in obtaining data from their clients.

The secret client method is increasingly used to obtain information on the quality of services, including all, from the physical environment to relations with bank employees. The lead part is that of a secret client coming to a bank to assess the quality of delivering a service according to the predetermined criteria. The secret client must be objective to ensure a proper insight into service quality.

By interviewing users of services it is possible to obtain information on what attracted them to the subject bank, its rating and promotional activities, which activities they perform better than the competition and what is to be improved.

Focus groups are groups of individuals discussing a given topic, whereby they exchange their experiences and opinions. Group activities are guided and monitored by a moderator who should also encourage proposition of solutions. The advantage of focus groups is interaction of participants in which it is possible to obtain valuable data by stating personal views. The number of participants is six to ten, so information obtained cannot be used for larger market segments. In addition to interviewing service users, information can be obtained from bank employees as well.

By interviewing employees it is possible to obtain information on what they think of service users, what they are particularly impressed with and what they learn through contact with service users. Information can be collated by telephone or electronically, through interviews and focus groups, and data obtained may be used for the improvement of the quality of services delivered.

There have been a great number of studies conducted worldwide in the area of banking services and satisfaction of users with services delivered. Results show that it requires a lot of efforts and knowledge to deliver a high-quality service in a pronouncedly changeable environment. Quality measurement is a task the complexity of which is additionally increased with some characteristics of services, including intangibility, as well as the fact that consumers are often involved in the service delivery process and thereby affect the quality of service (Marinković & Senić, 2012). On the basis of previously stated dimensions, a survey of the evaluation of quality of banking products and services was made, which is explained below.

3. Research methodology

The methodology used in this empirical research is a closed managed questionnaire. The survey comprised 80 respondents from the territory of the municipality of Bač, which has a population of 16268. The survey was conducted in January 2016, and the aim was to obtain data on how clients assess the quality of services that banks deliver them on the basis of the following quality dimensions: time, timeliness, completeness, courtesy, access, consistency and convenience, correctness, responsiveness, numerical accuracy and neatness. Data were analyzed within the SPSS (Statistical Package for the Social Sciences), whereby a factor analysis was applied. With that analysis, an attempt was made to group statements within a smaller number of factors.

The questionnaire consists of questions relating to gender, age and occupation of users and quality of banking services. On the basis of the stated dimensions of quality, statements are formulated and the respondents grade them within a 1-5 grading scale, depending on the extent to which they agree with them (1 stands for minimum and 5 for maximum). Out of the total number of respondents, 34, i.e. 42.5% of them are male, whereas 46, i.e. 57.5% of them are female respondents.

Views of the respondents as to 10 statements relating to the quality of banking products are graded within the Likert five-grade scale (1 – strongly disagree, 2 – disagree, 3 – neither agree nor disagree, 4 – agree, 5 – strongly agree).

The age structure of respondents is as follows: 13 respondents are in the 18-25 age range, 20 of them are in the 26-35 age range, 21 respondents are in the 36-45 age range, 17 respondents are in the 46-55 age range and 9 respondents are in the age range 56 and older.

The occupational structure of respondents is as follows:

- Unemployed, dependent person: 20 respondents (25%),
- Employed in civil service: 40 respondents (50%),
- Employed with private firms: 20 respondents (20%).

Statements graded by the respondents are the following:

- Personnel of your bank state precisely when the service will be delivered;
- Your bank performs the assigned tasks within the agreed deadline;
- Services are delivered fully;
- Personnel of your bank is always ready to assist;
- Services are delivered to all clients under the same conditions;
- Contact between the bank and client is easily made;
- Services are delivered in the agreed way;
- The bank responds to problems within a short period and resolves them;
- All items in bank offers are given in a transparent way;
- The interior of the bank is neat.

4. Research results

In the following table, numerical and percentage results of the assessment of quality of services from an aspect of clients are given:

Table 1. Results of the assessment of the quality of banking services

<i>Number</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>SUM</i>
1.	1 (1.3%)	6 (7.5%)	17 (21.3%)	33 (41.3%)	23 (28.8%)	80
2.	1 (1.3%)	7 (8.8%)	8 (10%)	39 (48.8%)	25 (31.3%)	80
3.	0 (0%)	7 (8.8%)	8 (10%)	34 (42.5%)	31 (38.8%)	80
4.	3 (3.8%)	5 (6.3%)	17 (21.3%)	15 (18.8%)	40 (50%)	80
5.	2 (2.5%)	15 (18.8%)	14 (17.5%)	16 (20%)	33 (41.3%)	80

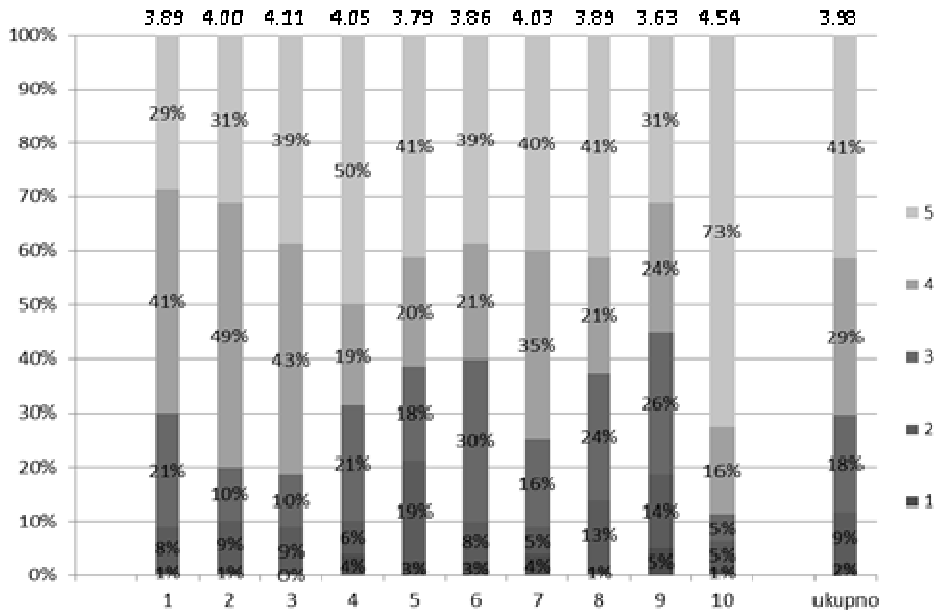
6.	2 (2.5%)	6 (7.5%)	24 (30%)	17 (21.3%)	31 (38.8%)	80
7.	3 (3.8%)	4 (5%)	13 (16.3%)	28 (35%)	32 (40%)	80
8.	1 (1.3%)	10 (12.5%)	19 (23.8%)	17 (21.3%)	33 (41.3%)	80
9.	4 (5%)	11 (13.8%)	21 (26.3%)	19 (23.8%)	25 (31.3%)	80
10	1 (1.3%)	4 (5%)	4 (5%)	13 (16.3%)	58 (72.5%)	80
SUM	18 (2.2%)	75 (9.4%)	145 (18.1%)	231 (28.9%)	331 (41.4%)	800

Source: authors' calculation

On the basis of Table 1, it is noticed that 70% of respondents assigned high grades, 4 and 5, for the quality, 18% assigned it median grade 3, whereas 12% assigned it low grades 1 and 2. It can be concluded that respondents are satisfied with the quality of services delivered to them to a great extent and that banks should continue to maintain the high quality of their products and services, as well as to improve it continuously.

Graph 1 shows results obtained in Table 1 and the median value of the graded statement.

Graph 1: Results of the assessment of the quality of banking services



Source: author's calculation

By calculating the median value, it is concluded that statements ten and three (interior: 4.54 and full delivery of services: 4.11) are given the highest grades. The lowest grades are given to statements nine and five (transparency: 3.63 and equal conditions for all clients: 3.79). Generally taken, the median grade of the quality of banking services on the basis of the survey conducted is 3.98.

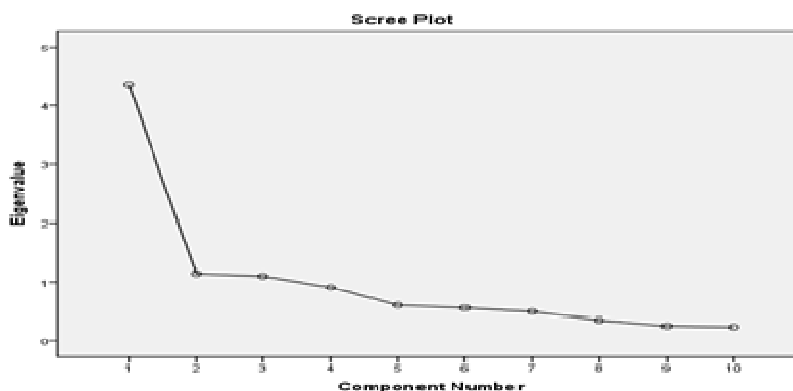
On the basis of characteristic of our sample it can be concluded that it meets necessary requirements to conduct a factor analysis as the sample size is appropriate, i.e. the survey involves 80 respondents for each of the ten statements.

The results obtained for the Kaiser-Meyer-Olkin measure sampling adequacy (KMO=0.809) and Bartlett's sphericity test ($p = 0.000$) justify the application of the factor analysis. On the basis of a correlation matrix, it is noticed that there are several correlation coefficients that exceed or equal 0.3, meaning that the other requirement for conducting factor analysis is satisfied.

By employing factor analysis, an attempt is made to recognize and identify a small group of factors that present internal links within a group of related variables standing for views on the importance of the quality of banking products and services. That number of factors is determined on the basis of a scree plot (Cattell's criterion).

The following graph shows characteristic values of all factors, whereby all factors above the turning point are kept, as they contribute to the greatest extent to variance explanation within the group of data. According to our chart, only four components are kept.

Graph 2. Scree plot



Source: authors' calculation

The method applied in the research is an analysis of principal components, while varimax rotation is used for a more detailed interpretation of factors.

Table 2: Results of factor analysis

Statements	Factor 1	Factor 2	Factor 3	Factor 4
Factor 1: Relation to clients				
Services are delivered to all clients under same conditions	0.860			
Contact between bank and client is easily made	0.802			
Your bank personnel are always willing to assist	0.716			
Services are delivered in agreed way	0.658			
Factor 2: Professionalism				
Your bank performs duties assigned within agreed deadline		0.814		
Personnel of your bank say when a service will be delivered exactly		0.759		

Services are delivered completely	0.735			
Factor 3: Transparency and time of response				
All items offered by bank are transparently presented	0.895			
Bank responds to problems promptly and resolves them	0.795			
Factor 4: Interior				
Bank interior looks neat				0.976
Percentage of described variance	43.641	11.420	11.006	9.092
Alpha	0.834	0.754	0.780	

Source: authors' calculation

Statements in the questionnaire are grouped around four factors. Factor 1 relates to “relation to clients” and comprises the following statements: personnel of your bank are always willing to assist, services are delivered to all clients under same conditions, the contact between the bank and clients is easily made and services are delivered in an agreed way. This factor explains 43.641% of the variance. Factor two, “professionalism”, describes 11.420% of the variance and comprises the following items: personnel of your bank perform duties assigned within the agreed deadline and services are delivered completely. “Transparency and time of response” is factor number three, describing 11.006% of the variance and comprising the following statements: the bank responds to problems within a short term and resolves them and all items offered by the bank are presented in a transparent way. The statement that the interior of the bank looks neat is factor four termed “interior”, explaining 9.092% of the variance. All four factors describe 75.160% of the variance.

On the basis of Table 2, it can be seen that the values of Cronbach’s alpha coefficient are greater than 0.7 (DeVellis, 2003), due to which all factors have a high level of reliability. As far as factor four is concerned, and it comprises only one item, and it is not possible to calculate the alpha. Having in mind the fact that the stated coefficient is an indicator of internal agreement, it is concluded that the items grouped around each of the factors are internally consistent.

Conclusion

More recent trends in banking operations force banks to pay an increasing attention to the needs of users of services. Greater competitiveness is achieved not only by

adequate management of the marketing mix, but it is primarily necessary to continually increase the quality of all aspects of banking activities and shift focus to the satisfaction of users of services.

Good relations with clients are a key to success for any bank, which should be a guideline in day-to-day dealings. Such relations are established by paying attention to clients, understanding them, increasing availability of services, giving assistance whenever needed and, by all means, by greater professionalism in performing one's duties. In addition to that, transparency, response time and bank image are of great importance.

On the basis of the conducted empirical research, it is concluded that, within the analysis of the quality of banking services, four elements appear to be of great importance: relation to clients, professionalism, transparency and time of response and bank interior. The results obtained also indicate that on the territory of the municipality of Bač, banks, in their relations with retail clients, have managed to meet quality standards in delivering their services, as data show that 70% of respondents assign them high grades, 4 and 5.

In addition to that, it is noticed that interior and complete delivery of services are given the highest grades, whereas clients are the least satisfied with the level of transparency and equality of standards for all clients. Poorly graded bank transparency is most frequently related to the fact that explanations relating to services, as well as charges and costs, are not clear enough to clients. Banks frequently use different terms for the same notion (e.g.: three expressions are used as synonyms for bank overdraft), which additionally confuses users who are not familiar with such terminology. Banking price and fee lists are sometimes very complicated and clients are not able to calculate the exact expense of the service they would like to be delivered.

It is important to mention that the conducted research focuses on measuring the quality of banking services delivered to retail clients. In the future, it would be useful to conduct research which would involve levels of interest rates, availability of loans and other financial instruments. In addition to that, a comparison of such analysis with an analysis of the quality of banking services offered to corporate clients could be made. Conclusions in this paper indicate, among other things, the fact that its authors, when drawing up the questionnaire, dealt with the image of banks to a lesser extent, which could be taken into account when conducting any future research.

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Summary

With regard to the requirements of modern business, banks have to put the focus on continuous improvement in the quality of its services. This paper analyzes the elements and dimensions of the quality of banking services. In order to meet the increasingly complex needs and requirements of customers, banks should pay special attention to: relation to clients, professionalism, transparency, time of response and bank interior. According to research described in the paper, we come to a conclusion that interior and the complete delivery of services are given the highest grades. Considering that level of transparency and equality of conditions for all customers are rated as the worst factors, banks should make further efforts to improve results in this area.