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Performance Appraisal using the CAMELS model and its impact on the quality of banking service

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Article Information's

A B S T R A C T

The study uses Performance Appraisal to address the issue of service quality in the banking industry, with the goal of developing an integrated performance-measurement model for the banking industry that would allow the priority of items for improvement to be identified. To assess whether elements do not fall into the proper performance-control zone of the model's performance-control matrix, an importance questionnaire has been provided. The value of some improvement objectives can be calculated using the given performance-control matrix index. Finally, the quality loss function is used to rank the improvement goals in order of importance. A case study of an Iraqi bank is then presented to demonstrate the applicability of the model in practice. The study thus presents a complete assessment model that helps managers to identify items for improvement, while simultaneously promoting quality in service processes.

1- INTRODUCTION

Banks must be more professional, dependable in their service, and able to respond to client needs rapidly. A banking industry that is becoming increasingly competitive, not only with other banks but also with non-banks and other financial institutions. (Mwiya, et al,2022) All of the services and facilities supplied by banks have a critical role in determining the level of banking service quality and performance. In order to stay competitive in the financial services business, financial institutions have offered a wide range of financial services. (Hinson, Mohammed, & Mensah, 2006). All research was carried out using SERVQUAL on the basis of five dimensions namely; tangibility (physical facilities), reliability, responsiveness, assurance, and empathy.

Service quality is seen as a key indicator of an organization's success. This is still the most important problem in both general marketing and special service marketing literature. (Hole, et al, 2018)

Among the many techniques available today for evaluating bank financial performance, the CAMELS rating model of financial analysis is considered more efficient in establishing clear risk assessment systems, developing and monitoring quality performance, identifying problems, and correcting deficiencies when compared to traditional tools. Today's financial management processes are fraught with a variety of dangers, and the CAMELS model employs crucial ratios to aid in the identification of risk characteristics. Bank operations necessitate a great deal of risk identification, as well as risk measurement and management. The CAMELS model parameters provide a simplified early warning information system. Therefore, the use of this model is significant in both performance measurement and monitoring review) Nair, & Asghede, 2015).

This article discusses the gaps in the literature by analyzing the performance-importance of customer perceptions of bank service. According to the authors, the research on service quality using performance appraisal is still little done, so it is important to analyze the performance-importance of customer perceptions, especially at Iraqi banks. The main focus of this research is to identify gaps in service quality between consumer expectations and perceptions at Bank of Baghdad So that it can be a customer's preference in considering the quality of service of a bank in Medan in particular and Iraq in general.

This study found that what consumers expect is far more than their perceptions. The key to the success of a bank is to remain competitive and continually improve the quality of services to better meet customer needs

and provide superior services. Banks must understand clearly and precisely customer expectations because customers compare perceptions with expectations in assessing the quality of bank services.

2- LITERATURE REVIEW

Studies on service quality have extensively examined the problem of how to measure service quality with a view to assisting management to enhance the delivery of service quality (Babakus & Boller, 1992; Bolton & Drew, 1991; Chang, 2006; Cronin & Taylor, 1992; Parasuraman, Zeithaml, & Berry, 1988). In the absence of objective measures, businesses must rely on consumers' perceptions of service quality to identify their strengths and weaknesses and to conceive appropriate improvement strategies. The development of psychometrically sound and managerially useful instruments to measure service quality is thus imperative (Karatepe, Yavas, & Babakus, 2005). For this to be achieved, customer satisfaction must be translated into a number of measurable criteria (Deschamps & Nayak, 1995).

Parasuraman, Zeithaml, and Berry (1985, 1988, 1991) applied their 'gap' model (of the difference between customer expectations of service quality and customer perceptions of actual service quality) to the determination of perceived service quality. Based on the service-quality 'gaps' contained in the SERVQUAL model, businesses can determine their plans to enhance service quality and customer satisfaction. Other authors, Hung et al. (2003) and Yang (2003a), have emphasized: (i) the importance of certain service elements and (ii) the degree to which these elements are satisfied. These authors have emphasized that any determination of service quality must include both customer expectation with respect to important service elements ('importance') and customer perceptions of satisfaction after a service transaction ('satisfaction'). Indeed, many studies in Taiwan have now applied the 'importance and satisfaction' survey, rather than the traditional SERVQUAL model, to analyze customer satisfaction in Taiwanese businesses (Yang, 2003b). The advantage of this importance and satisfaction (I–S) approach is that it identifies the most important attributes for improvement – not just those with low satisfaction. Attributes with low satisfaction have traditionally been designated for improvement. However, selecting such low-satisfaction attributes is not necessarily the best approach (Yang, 2003a); rather, businesses need to improve the quality attributes that customers regard as both: (i) important and (ii) lacking in satisfaction. It follows that an effective model of performance measurement should simultaneously measure the importance level and the satisfaction level of

quality attributes. If this is not done, a great deal of money can be spent on improvement without improving satisfaction.

3- Research methods
3.1 Questionnaire design

A questionnaire survey of customer satisfaction was used in conjunction with the matrix described earlier. The questionnaire was based on: (i) a review of the literature (Karatepe et al., 2005; Parasuraman et al., 1991) and (ii) discussions with experts (including service-quality consultants) and customers. The following dimensions were used:

- tangibility: the appearance of the service providers and the bank facilities (four items);
- assurance: the ability of service providers to perform the promised service dependably and accurately (six items);
- responsiveness: willingness to help customers and provide prompt service (three items);
- empathy: individualized attention given to customers and willingness of bank personnel to help customers and resolve their problems in a timely manner (four items);
- reliability: dependability of service and accuracy of records and information (four items)

Table 2 shows the items used for measuring customer satisfaction in accordance with these dimensions.

Dimensions	Items
Tangibility	The exterior of this bank is appealing
	This bank has modern equipment
	Employees of this bank have neat appearances
	This bank has convenient parking spaces
Reliability	The bank can meet its promises
	This bank provides appropriate service during the promised time frame
	The service of this bank is reliable
	Employees of this bank provide customers with precise information
	The transaction records of this bank are accurate
	Employees of this bank have the knowledge to respond to problems
Responsiveness	The employees of this bank offer customers appropriate service
	The employees of this bank are always willing to assist customers
	This bank does not make its customers stand in a queue for a long time
Assurance	Employees of this bank are polite to customers
	Customers can trust the employees of this bank
	Customers feel comfortable while in contact with the employees of this bank
	This bank offers the customer various financial information
	This bank's finance is reliable
	Employees of this bank provide equal treatment to all customers
	Employees of this bank provide equal treatment to all customers
Empathy	This bank offers personalized service to customers
	Employees of this bank know customers' needs
	This bank protects the rights of customers
	The operational hours of this bank are convenient for customers

This questionnaire consisted of two parts. The first part included questions on sex, age, educational background, and occupation. The second part consisted of a Likert-type survey scale of 'importance' ranging from 1 to 5 (in which '1' represented 'very unimportant' and '5' represented 'very important'). A similar survey for 'satisfaction' was also undertaken.

3.2 Data collection and analysis

The questionnaire was distributed to 40 customers by hand at Jih Sun Bank branches in Iraq in March 2023. In all, 34 were returned (a response rate of 85%). Among those returned, 3 questionnaires were incomplete
– meaning that 31 completed questionnaires were used in data analysis. Reliability was assessed by Cronbach's alpha using SPSS software. Cronbach's alpha for customer importance was 0.9577 and for customer satisfaction, the coefficient was 0.9430 – indicating that the questionnaires were extremely reliable. Table 3 shows the results for the dimensions. As can be seen from Table 3, all dimensions but one had a Cronbach's alpha of greater than 0.7, which indicates 'high' reliability (Cuieford, 1965; Gay, 1992); however, the value of 0.6940 for 'tangibility' was nevertheless indicative of 'acceptable' reliability. The questionnaire thus had good reliability and validity.

Table 1. Dimension and items of questionnaire.

4- RESULTS

Based on calculations from the results of the five-dimensional SERVQUAL research namely; tangible, responsiveness, reliability, assurance and empathy. The measurement is done by calculating the comparison between the reality of the service received and the expectation of the desired service.

Table 2: Average Calculation of Suitability Level of Service Quality Dimensions

No	Dimensions SERVQUAL	Average Importance	Average Performance	Level of Conformity
	Tangible	**4.1**	**3.7**	**73%**
	Reliability	**3.9**	**3.75**	**74%**
	Responsiveness	**4.2**	**3.69**	**72%**
	Assurance	**3.89**	**3.71**	**73%**
	Empathy	**3.87**	**3.6**	**71%**
	Average	**3.99**	**3.69**	**73%**

Table 2. shows that the average of the five SERVQUAL dimensions for service quality is 73%. While in each dimension is tangible 73%, reliability 74%, responsiveness 72%, assurance 73% and empathy 71%. Based on the results of the research data as a whole the quality of services seen from the dimensions (reliability, responsiveness, assurance, empathy & tangible) has the value of conformity is very good according to the customer.

5- DISCUSSION

Based on the results of research from the five dimensions of SERVQUAL namely; tangible, responsiveness, reliability, assurance and empathy. Statistical techniques using the Importance Performance Analysis (IPA) method show that the level of bank service quality performance of 73% is appropriate and very good, and Gap Analysis (GAP) shows that the level of bank service quality gap of -79% is good according to customer. According to Parasuraman et al., (1991), if the result of the gap < -1 means good, and the result > -1 means that the quality of the service provided is not good. In principle, the data obtained through the SERVQUAL instrument is used to calculate the gap score from the average service quality dimension.

6- CONCLUSIONS

Customers expect high quality in service but actual customer satisfaction is low. So, this can be a key for Bank of Baghdad to improve the quality of services. For example, Bank of Baghdad is responsive in providing assistance to customers. Concisely, this research contributes to understanding important issues related to the quality of bank services and provides some useful managerial insights for banks.

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