CHAPTER-2

Review of Literature

No researcher can do justice with the research problem at hand unless one is having proper understanding of all its related aspects. This requires detailed study of available literature and deciding the framework of research project to be undertaken. It is not only customary but also absolutely necessary for a researcher to review the existing literature. It facilitates the comparison between the earlier findings and the findings of the present study. In order to find the gaps in the research, the literature available pertaining to the problem is to be reviewed. By doing so the researcher may put great emphasis on those aspects of research problem which may have not been duly covered by earlier researchers. The existing literature on present study includes books, compendia, thesis, dissertations, study reports and articles published by academicians and researchers in different periodicals. This review of literature gives an idea to concentrate on the unexplored area and to make present study more distinct from the other studies. Review of related literature helps one to establish the research problem and can provide guidance on a particular topic undertaken for research. Without doing so the researcher will be probing in the dark. It provides a solid background to researcher to get full acquaintance with the subject. By throwing light on the footprints of earlier researchers can effortlessly develop research questions and subsequently paves a way to carry out new research. There is no dearth of literature related regarding individual component such as service profit chain, Internal Service quality and external service quality which are considered so vital for the success in service industry. Somehow, researcher has not come across any such study, which has studied the applicability of service profit chain in Indian banking Industry. This chapter begins by examining the concept of Internal Service quality followed by concept of External Service Quality and Service Profit chain. A brief discussion of some of the relevant studies is given here.
2.1 INTERNAL SERVICE QUALITY / INTERNAL MARKETING

2.1.1 MEANING OF INTERNAL MARKETING/INTERNAL SERVICE QUALITY

Internal Marketing is a planned effort using a marketing like approach, to overcome organisational resistance to change and to align, motivate and inter functionally coordinate and integrate employees towards the effective implementation of corporate and functional strategies in order to deliver customer satisfaction through the process of creating motivated and customer oriented employees (Rafig and Ahmed, 2000). Internal marketing is a tool that harnesses the employee power and creates an environment where every member acts as both a client and customer in order to create responsibility (Mishra, 2010). Internal marketing is thus an application of marketing concept to employees the way same is applied to the customers (Lovelock, 2008).

2.1.2 SIGNIFICANCE OF INTERNAL MARKETING/INTERNAL SERVICE QUALITY

Internal service quality may work wonders for organizations practicing the same (Zeithaml et al, 2008).

Various researchers have proved the same. Some of these are as follows:

✔ Internal service quality is seen as a significant factor in determining employees satisfaction (Xu, 2005). By satisfying employees, it enhances their job satisfaction also (Hwang et al, 2005).

✔ Internal marketing is also proposed as a mechanism for ensuring the motivation of service employees (Mishra, 2010). The motivated employees, in turn, are more customer conscious, market oriented and sales minded (Gronroos, 1981). In fact, non-practicing of internal marketing may reduce the motivation level of employees and may spell doom for the organization (Dormann et al, 2002).
Internal marketing not only motivates the employees but also increases their commitment (Chang et al, 2009). Employees are in fact likely to improve their general performance and are more cooperative when internal service quality exists (Bellou, 2008). It has been observed that inter-functional coordination and integration, training and motivation have positive effects on organizational commitment of employees (Farzad et al, 2008). It can thus be concluded that internal marketing programmes have significant impact on employees commitment (Zaman et al, 2012).

Internal marketing has not only a positive bearing on employees satisfaction and motivation but also on customer satisfaction (Javadein, 2011). Satisfied employees also make endeavours to satisfy customers and hence enhances their overall satisfaction and loyalty (Lombard, 2010).

Internal marketing has its role to play in maintaining relationships with customers also. Motivated and committed employees are more apt in developing stable relationship with customers (Hennig and Thurau, 2004). Such employees, in fact make deliberate efforts to know the expectations of their customers which is ultimately culminated into customers loyalty and life long relationship with them (Rafiq and Ahmed, 2003). This exercise ensure that a well maintained data base of customers is kept by the companies for relationship building purpose (Simons et al, 2003).

Internal marketing has its role to play in improving organizational performance also. A significant level of correlation has been seen in internal marketing, employees job satisfaction and organizational performance (Hwang et al, 2005). Service organizations that emphasises on the quality of work life (QWL) for their employees tends to have better sales growth, asset growth and return on asset growth (Lau, 2000). Thus, it is an established fact that internal marketing is absolutely crucial to the performance of business organisation (Yeung et al, 1997).
2.1.3 **Internal Marketing/Internal Service Quality – Some Prerequisites**

The benefits of internal service quality would accrue to the service company if the same is taken in right earnest by it (*Zeithaml et al., 1998*).

There are some prerequisites to success of internal service quality endeavors. These are:

- Empowering the employees is something that is absolutely crucial to the philosophy of internal service quality. In fact, empowered employees have been found to be high in satisfaction level and hence perform their work diligently and professionally (*Sharif, 2009*).

- It has been observed that outcome orientations and rewards make employees to understand and fulfill customer needs. This is especially true in case of non-managers. In case of managers’ age and tenure matters more in this regard. Hence, organization should make an endeavor to satisfy manager’s needs to keep them intact with it. This is an ideal ploy to impart internal service quality (*Bellou, 2007*).

- Ethics and values are the antecedent of internal service quality and there is a direct link between the achievement of organization goal and organisations’ ethics and values (*Davis, 2006*).

- Providing better working conditions and benefits to employees are also essential for internal service quality pursuits. These make employees feel pride in their job (*Lau et al., 1998*).
✓ It has also been observed that maintaining open lines of communication with employees and giving them good working conditions to work is vital for success of any internal marketing effort (Amangala, 2013).

✓ Information and its diffusion to employees is also thought to bring happiness in them and is seen as an important ingredient of Internal marketing (Hernandez, 2008).

✓ The dimensions like proper understanding of employees, paying attention towards them and making them competent are desired for practicing Internal Marketing (Dolen et al, 2004).

2.2 EXTERNAL SERVICE QUALITY

2.2.1 MEANING OF SERVICE QUALITY

Service quality has been the most frequently investigated area in the literature of Marketing. Still there is no universal accepted definition. Various authors have conferred different notions of service quality. Some of the prominent studies highlighting the perspectives of service quality are:

✓ Service quality is “conformance to requirements”. It stresses on the need for defining the standards and adhering to the specifications. The approach is mainly focussed on prevention rather than correction .This emphasises the anticipation of probable errors and grey areas where errors can creep up and then taking actions to prevent them (Crosby, 1979).

✓ Quality is a relative term and varies with customers’ needs .It is consistency in performance and uniformity in product characteristics (Deming, 1986).

✓ Service Quality has also been defined as “Fitness for use”. It is meeting the expectations of the customers who will use them (Juran, 1988).
Service quality is the assessment of customer about excellence of service (Zeithaml, 1987).

Service quality, as perceived by customers’ is the discrepancy arises when customers’ compare expectations from service with the perception of the performance of service firms (Gronroos (1982), Lehtinen and Lehtinen (1982), Parsuraman, Zeithaml and Berry (1985).

In spite of different viewpoints about service quality it has been revealed that customers’ basically use the same criteria in evaluating service quality (Parsuraman, Zeithaml and Berry (1988).

2.2.2 MODELS AND DIMENSIONS OF SERVICE QUALITY

Some of the prominent models of Service quality are as follows:

✓ NORDIC MODEL

Service quality can be evaluated on the basis of three dimensions - Technical quality functional quality and image. These are the significant elements to justify the service quality of a service firm. Technical quality refers to what customers receives during service encounter, functional quality is the function of operational outcome, how the service is delivered to customers and the image is the brand name, the firm enjoys in the market and is dependent on technical and functional quality along with other factors. This concept is known as Nordic Model of Service quality. (Gronroos, 1984). The important limitation of the Nordic model is that it is relatively difficult to define the technical quality or result of some services. (Kang and James, 2004).

✓ GAP MODEL OF SERVICE QUALITY

Parsuraman et al (1985) propounded GAP model of service quality and conferred that service quality is a function that arise from differences in customers’
expectations and perception about the service concept. These differences can be understood in terms five gaps, as visualised by executives and focus groups. The various gaps identified were:

GAP 1: Customer expectation-management perceptions gap, The Knowledge Gap.


GAP 5: Expected service- perceived service gap, The Service Quality Gap.

First Four gaps are on the marketer side and the fifth gap is on the customers’ side.

✓ SERVQUAL MODEL

SERVQUAL model consisting of 5 dimensions and 22 items on 7 point Likert scale has been a very popular model of measuring service quality. SERVQUAL is a concise multiple item scale with good reliability and validity that can be used to better understand service expectations and perception of consumers and as a result can improve service quality. It is considered as an advanced model for measuring service quality consisting of five dimensions-Tangibles, Reliability, Responsiveness, Assurance and Empathy (Parsuraman et al.(1988).

✓ SERVPERF MODEL(Performance only Model)

Although SERVQUAL has remained a popular tool but it has been criticised as it measures customer satisfaction on perception-expectation model and not on attitude model. Cronin and Taylor (1992) therefore developed a model known as SERVPERF to measure service quality by considering only the performance in the
services. In this model service quality is assessed by perception only without expectations.

✓ RETAIL SERVICE QUALITY MODEL

Though SERVQUAL has been empirically tested in most of the pure service settings but it has not successfully adapted in retail store environment. Since retail stores offer products and services together so measure of service quality in retailer environment requires additional dimensions. Dabholkar et al. (1996) developed an empirically validated five dimensional model called Retail Service Quality Scale (RSQS) . These dimensions are physical aspects, reliability, policy, personal interaction, problem solving and policy. This scale has 6 sub dimensions, and 28 items. The scale has been viewed as a diagnostic model to determine which service areas need improvement.

✓ PCP ATTRIBUTE MODEL

Philip et al (1997) proposed a model that takes the form of a hierarchical structure – based on three main classes of attributes – pivotal, core and peripheral. Pivotal attributes which are the most important attributes that affect service quality are seen as end product or output, whereas; core and peripheral attributes are seen as inputs and processes. These attributes are shown in a triangle. Pivotal attributes are at the top, core attributes are at the second stage, and peripheral attributes are at the bottom side of the triangle. The degree of importance decreased from top to bottom of triangle.

In all the above and various other models of service quality various dimensions of service quality has emerged.
Few studies have considered various dimensions as equally important irrespective of the type of service (Sachdev et al., 2004). But various studies signified the relative importance of different dimensions of service quality:

✔ Reliability is considered as the most important factor in banking services while tangibility has been rated the lowest by customers (Kumar et al., 2008).

✔ The most important dimension for service quality is reliability which is followed by assurance and responsiveness respectively. In this respect, empathy is the least important dimension. (Safakali, 2007).

✔ Customers give highest importance to reliability followed by responsiveness of bank employees and assurance factor. (Mistry, 2013).

✔ Customers are highly inclined towards the security aspects (Assurance) associated with the service and least interested in ‘Empathy’ aspect of the bank (Santhiyavalli, 2011) on the other hand (Lasser et al., 2000) have opined that Empathy is the only dimension that contains elements of both functional quality and technical quality.

✔ Technical quality is more influential on the satisfaction of utilitarian services, and functional quality is a more important determinant factor of satisfaction in hedonic services than in utilitarian services (Lien et al., 2008).

✔ The prominent factors considered for evaluating service quality by customers are competence and courtesy of employees, tangibility, reliability, responsiveness and communication (Agyapong, 2011).

✔ Shankha (2012) has opined that empathy and responsiveness are the most crucial determinants of service quality.
Kheng (2010) meanwhile has observed that reliability, empathy and assurance have greater bearing on customer loyalty.

Malik et al (2011), however has observed that reliability and responsiveness do not impact customer loyalty. Tangibles, empathy and assurance according to him make more impact in this regard.

2.2.3 Significance of Service Quality

Service quality serves as the antecedent to satisfaction (Hernon et al, 1999) (Mohammad, 2011). Service quality is an important determinant of customer satisfaction which consequently results in customer loyalty (Ravichandran et al 2010). Infact, all the attributes of service quality are positively related to customer satisfaction and thereby customer loyalty (Siddiqi, 2011). Even in low contact mass services, perception of excellent services increases customer life time value (Ranaweera et al., 2003).

Service quality also helps in generating sales volume as there is significant correlation between perceived customer satisfaction and sales volume (Wiele et al, 2001).

Services quality is a profitable strategy. Companies having superior quality have typically more market share, higher return and more turnover (Sadeghi et al, 2011). Therefore, marketers should make investment in service quality judiciously to ensure profitability.

Not only sales value and profitability, presenting superior quality continuously in excellent way can provide competitive advantage to the organisation (Sadeghi et al, 2011).
2.2.4 Service Quality- Some Prerequisites

Bolton et al(1991) revealed that customers' assessments of quality and value are primarily a function of disconfirmation arising from discrepancies between anticipated and perceived performance levels and is directly affected by performance levels. Thus by managing performance in the services, customers perception of service quality can be changed. Some of the Prerequisites for ensuring good service quality are:

✓ Customers of high customer service firms rely on functional dimension to distinguish between alternate service providers (Lassar et al ,2000) .Thus focussing on Service operations efficiently customer satisfaction can be created, and more profit can be realized. (Kim et al ,2009)

✓ By using formal and informal strategies to socialise with the customers, service providers could positively influence their customers’ perception of service quality. Govender (2002).

✓ Continuous and substantial improvements in process design must be achieved through process management. Process management is a critical driver of technical service quality. This implies that customer satisfaction programmes based on SERVQUAL intangibles are not enough for the companies .There should be constant review of process design in order to achieve an improved customer satisfaction level.(Kumar et al,2008).

✓ Merely handling complaints of the customers is not enough .They should be handled effectively by the organisation only then there will be a positive impact on the service quality and organisational performance (Wiele et al, 2001).

2.2.5 Service Quality in Banking Industry

✓ Yavas et al (1997) have conferred that good service quality has a positive bearing on customer satisfaction, improves long term commitment of the customers with the bank
Culiberg et al (2010) have explored service quality in a retail bank setting in Slovenia and proposed that all the five dimensions assurance and empathy, service range, access, tangibles, reliability and responsiveness are positively related with customer satisfaction. Assurance and Empathy are found to be the most critical in forming customer satisfaction but all the dimensions of service quality obtained, influence customer satisfaction and therefore banks cannot ignore any of these dimensions.

Olaleke (2010) has observed that service quality has significant effect on customer satisfaction in Nigerian Banking industry.

Ananth (2011) has posited out that place and people are the most influencing factors for quality of service in banking service quality.

Mohammad (2011) has revealed service quality is an important antecedent of customer satisfaction in Jordon Banking Industry.

Sadeghi et al (2011) have shown that there is a meaningful relationship between customers’ expectations and the quality of banking service and between customers' understandings and the quality of banking services. It is also proposed that the most important predicting effective factor of services quality is the "understanding factor" and the banks which concentrate on customers or customers' needs are more successful in competition.

Shil et al (2011) have studied customer satisfaction in private commercial banks and have revealed that customer satisfaction is influenced by Staff quality, tangible quality and delivery quality. They further prioritise these aspects and found that staff quality is more satisfying followed by delivery quality and tangible quality.
✓ Patidar et al (2013) have proved that private banks of India have better service quality as average gap between customers’ expectations and perception is less for private banks than government banks.

2.3 SERVICE PROFIT CHAIN

2.3.1 MEANING OF SERVICE PROFIT CHAIN

Service-profit chain (SPC) is a framework for linking service operations, employee assessments, and customer assessments to a firm's profitability (Heskett et al, 1994). It emphasised that employee satisfaction has a positive effect on employee loyalty and profitability of the company, and that employee satisfaction is predicted by internal service quality perceived by employees. In order to make the company perform better, employees’ should be satisfied as they deliver satisfaction to customers and make the company competitive in its markets through their knowledge and experience (Xu et al, 2005). Also strategies that strengthen the human resources components of the service operations can have a positive chain effect on the service organization's financial performance (Lau, 2000). Thus companies with favourable employee attitude and climate scores have elevated levels of customer satisfaction and sales achievement, and companies with higher levels of customer satisfaction also have stronger sales (Gelade et al, 2005). It can thus be concluded that employees and customers are the core elements of service profit chain (Ahmed et al, 2011) and there is strong relationship between service quality, operational efficiency and profitability (Soteriou et al, 1999).

2.3.2 ESSENTIALS OF SERVICE PROFIT CHAIN

Service Profit Chain is a seamless integration of several components linking employee satisfaction, value creation, customer satisfaction, customer loyalty, and
profit and growth and is a critical driver of customer service (Singh et al, 2013). Some of the prerequisites of service profit chain are:

- Customers’ satisfaction should be monitored periodically by the managers. This will act as diagnosing tool for managers and help them to identify the areas of improvement. Not only this, it will also contribute in maintaining and improving long term relationship with customers and thereby profitability (Sharma et al, 1999).

- Employers should target and serve only those customers whose needs they can meet profitably, better than its competitors. These customers will purchase multiple products and services of the organisation and are most likely to remain with it for long periods. Additionally these customers will recommend the employer to their friends and relations, and may be the source of superior returns to the shareholders (Hallowell, 1996).

- Along with customers, organisations should also focus on the interest of other stakeholders like employees, investors, community leaders, suppliers, shareholders, special interest groups, the media, government regulators, and influential opinion leaders as they have their own independent effects on organizational success (Grisaffe, 2000).

- Measuring and managing improvements on the non-financial metrics like quality, ethics and reputation can also prove as a successful driver of profitability (Grisaffe, 2000).

- Fair policies and treatment of employees in organizations may increase an organization’s capability to address the needs of its customer base. Fair treatment of employees appears to translate into employees’ commitment, retention and enhanced customer service and thereby profitability (Simons et al, 2003).
Balancing innovativeness with quality is in itself an intangible resource critical for sustaining growth, improving profitability, and creating superior market values. Capability to balance innovation with quality is indispensable for companies to sustain profitable growth in a fast moving global economic environment. (Cho et al, 2005).

For achieving superior profitability, it is important that the managers should not only be efficient in achieving superior satisfaction (positive behavioural intentions) but also be efficient in translating such attitudes and intentions into relevant behaviours (Kamakura et al, 2002).

2.3.3 Impact of Internal Service Quality on External Service Quality and Performance

There is no denying fact that quality services can only be provided to the external customers when quality services are maintained and guaranteed internally. (Dauda et al, 2013). Therefore, internal service quality has a considerable effect on External service quality directly or indirectly. Some of the studies highlighting the impact of internal service quality are:

Internal service quality is related to job satisfaction (Wang, 2013) and has a positive bearing on it (Dauda et al, 2013). Service organisations that does not have satisfied employees’ are characterised by employees’ quit intentions (Bockerman, 2012) and rarely satisfied customers (Hallowell et al, 1996). Additionally, customers’ perception of service quality in the organisation is based on their interaction with service personnel (Benea, 2008).

Internal service quality creates employee satisfaction that further leads employee loyalty and commitment and consequently external value to the organisation (Ahmed, 2011). Also it is a significant contributor of organisational citizenship
behaviour (Bockerman, 2012) and improves productivity of the organisation (Dixit, 2012).

✓ Internal service quality as perceived by employees has positive bearing on external service quality (Ahmed et al, 2011). This in turn improves customer satisfaction as the concepts of customer satisfaction and service quality are extremely interrelated (Tan et al, 2014). Moreover, understanding customer satisfaction is a powerful tool for customers’ retention (Roushn et al, 2010). Additionally, improving service quality improves customers’ loyalty (Kheng, 2010). All the attributes of service quality are positively related to customer satisfaction and thereby customer loyalty (Siddiqi, 2011). In addition, there exists positive relationship between customer satisfaction and business performance (Wiele, 2001). Thus it can be summarised that there are strong links between customer satisfaction, and retention, revenue, earnings per share, stock price (Williams et al, 2011). So, Internal service quality and External service quality are linked to business performance directly or indirectly.