CHAPTER 1
INTRODUCTION

1.1 Introduction

Services lie at the very core of economic activity in any society. During the past decade, services have increasingly assumed an important role in the Indian consumer’s life. Today people are using services in practically all the aspects of life— from advertisements to amusement park, education to entertainment, finance to fast food, retailing to recreation, travel to telephone and so on. The size of service sector is increasing in virtually all countries across the world. Services have also assumed an important role in Indian Economy. With over 50 per cent contribution to the GDP services form the mainstay of the Indian economy today. A major stimulus in this shift from the manufacturing based economy to a service economy is the movement to an information age due to the advancements in information technology and telecommunications. Additional factors contributing to the growth of service sector are longer life expectancy rate, increased leisure time, higher per capita income, increased time pressure, female work force participation, changing social and cultural values, etc. Reduced restrictions on private sector involvement have also played an important role in the growth of this sector. Moreover technological advances have made it possible for India to compete on a global basis in areas as software development and information services (some of the potential areas can be health, banking, consultancy and education). It is expected that services would continue to power the growth of our economy in the future as the backbone of India’s global competitiveness as well as a growing domestic demand for services.

As India is moving towards a service economy, marketers need to know more about marketing service products. The key for survival in the global market for a service firm is to offer a service that in some way is superior to its competition. Managers in the service sector are under increasing pressure to demonstrate that their services are customer focused and that there is continuous improvement in performance. Because of the unique
characteristics of services: intangibility, perishability, heterogeneity and inseparability of production and consumption, marketers of services face some very real and distinctive challenges. Standardization is difficult, quality control is difficult, mass production is not possible, communication and pricing is difficult and as service quality depends on many uncontrollable factors, there is no surety that services delivered matches with what was planned. As customers participate in and affect the transaction therefore, customer service is more important in services as compared to in manufacturing companies. Moreover, in the recent years the thrust on efficient customer service has increased tremendously because of increased competition from private players, improved technologies and growing customer sophistication. Consequent to the implementation of government policies on globalization and liberalization, consumers have become more and more aware of their requirements and the alternatives available in relation to services and the provider organizations. With greater choice and increasing awareness, Indian consumers are more demanding of quality services and players can no longer afford to neglect customer specific issues. Additionally, the perceptions and expectations are continuously evolving making it difficult for the service provider to measure and manage services effectively. Hereby we can infer that, long term survival in this sector, depends largely on a firm’s understanding of customer’s needs and problems, their perceptions and expectations of service quality. The key to sustainable competitive advantage lies in delivering high quality service that in turn will result in satisfied customers (Shemwell et al. 1998). Given that financial and resource constraints under which service organizations must manage it is essential that customer expectations are properly understood and measured that from the customers perspective, any gaps in service quality are identified. This information then assists a manager in prioritizing the identified gaps and finding cost effective ways of closing these service quality gaps.

The provision of high quality customer service is of fundamental and paramount importance in service sector. Because of its importance, researchers have devoted a great deal of attention to service quality, but there is still confusion going on in the area that needs to be addressed. One of the more controversial ones refers to the conceptualization and measurement of service quality.
1.2 Background and importance of the study

During the past two and a half decades, many regulatory, structural, and technological factors contributed to significant changes in the financial services marketing environment in the US as well as around the world (Angur et al. 1999). Financial liberalization has led to intense competitive pressures and companies are consequently directing their strategies towards increasing service quality level which fosters customer satisfaction and loyalty through improved service quality. Service quality is becoming an increasingly important factor and a pre-requisite for economic performance in service industry. Brown and Swartz (1989), argue that consistent delivery of superior service is the strategy that is increasingly being offered as a key to success by service providers to position themselves more effectively in the market place. Financial services providers struggle to distinguish themselves from the competition, as customers perceive very little difference in the products offered by financial services and any new offering is quickly matched by competitors. In order to promote them effectively, a service provider must first identify the dimensions used by consumer to evaluate service quality.

Parasuraman et al. (1985) and Zeithaml et al. (1990) noted that the key strategy for the success and survival of any business institution is the deliverance of quality services to customers. The quality of services offered will determine customer satisfaction and attitudinal loyalty. “Quality of service” has become an industry slogan in marketing campaigns. Consumers are interested in purchasing services of higher quality but at lower cost. Service providers are trying to control costs, increase market share, and increase viability of their firms. As service providers strive to place costs within a competitive range, quality of service will become the deciding factor on the viability of service companies.

The research activity in the area of service quality has increased tremendously in past couple of decades (Gronroos 1982, 1984; Bolton & Drew 1991; Brown et al. 1993; Parasuraman et al.1985, 1993; Teas 1993). Oliver (1977) conceptualized the interpretations of the effect of expectation and disconfirmation on perceived product
performance. Later in 1985, Parasuraman et al. continued the study of disconfirmation with an emphasis on service quality, which has been defined as the difference between customer’s expectations and the service delivered. Service quality levels are higher when the gap between perceptions of performance and desired expectations is small; the levels of satisfaction exist when perceived performance exceeds predicted expectations (Parasuraman et al. 1988).

Today, controversy continues concerning how service quality should be measured (Cronin & Taylor 1992; Bolton & Drew 1991; Brown et al. 1993; Parasuraman et al. 1985, 1991, 1993, 1994; Teas 1993). One of the most controversial issues is the reliability of SERVQUAL; a scale developed to measure service quality (Parasuraman et al. 1985). SERVQUAL has been used to measure service quality in business schools (Carman 1990), banking, dry cleaning, fast food services (Cronin & Taylor 1992) and in many other services. SERVQUAL’s validity has been called into question as well. Carman (1990) analysed the five dimensions of SERVQUAL and concluded that they are not generic and required modifications. One plausible solution is to adapt the five dimensions of SERVQUAL by adding items that are applicable to different situations (Carman, 1990).

Firstly this research provides a summary of relevant literature on key conceptual and methodological issues relevant to expectations and perceptions in measuring service quality. Later it develops a comprehensive scale to measure service quality in banking and insurance sector. As financial services are inherently intangible and high on experience and credence qualities, in order to promote them effectively, a service provider must first identify the dimensions used by consumer to evaluate the service quality of banks prior to becoming a customer.

This research was designed to assist an organization with developing an understanding of the influence that service quality has on customer satisfaction and customer behavioral intentions. Although this research was conducted in Gujarat region, this process of analyzing the needs of customer and conceptualizing an understanding of the gap
between service quality expectations and perceptions is universal. The results of this research identified which service attributes were important as well as service attributes requiring improvement. Also the research contributed to the study in the academic field of service quality, customer satisfaction and behavioural intentions.

1.3 Purpose of research

Perceived service quality is one of the highly debated and researched topics in marketing theory, which is exhibited by the considerable academic attention that it has got from researchers across the world (Buttle 1996; Asubonteng et al. 1996). The importance of service sector and emphasis on service quality, have reached beyond theoretical discussion. Delivering higher levels of service quality is the strategy that is increasingly being used by service providers to position themselves more effectively in the market.

The problem for this study was that most organizations lack a systematic way of evaluating and monitoring the level of service quality delivered to the customers and therefore it was likely that a gap exists. The purpose of this study is to contribute to research that analyzes the extent of quality disconfirmation between expectations and perceptions of service quality and its relationship to customer satisfaction and future behavioural intentions. Service quality and customer satisfaction are inarguably the two core concepts that are the crux of the marketing theory and practice (Spreng & Mackoy 1996).

This research seeks to gain an empirical insight into customers’ perceptions of service quality in the banking and insurance industry. In particular, this research will identify the service quality dimensions and understand how these dimensions can contribute to or influence customer satisfaction and behavioural intentions. This study will investigate how banking and insurance companies perform in terms of the service quality dimensions and which service quality dimensions are more significant in achieving service quality. This research will also examine the interrelationships among the service quality, customer satisfaction, and behavioural intentions in the banking and Insurance sector. In addition, customers’ service quality, overall satisfaction and behavioural intentions will
be compared based on demographic factors, such as gender, age, income, education and profession etc. This research will also focus on analyzing the gap between customer’s service expectations and perceptions of actual service delivered by the service providers. While analyzing the gap between customers expectations and perceptions of service quality, this research will direct management to service quality deficiencies and areas of dissatisfaction with opportunities to improve overall service quality performance.

1.4 Research objectives

The following research questions were used as the basic focus of this investigation.

1. To identify the relevant service quality dimensions used by customers to assess service quality in banking and insurance sector.
2. To determine the relationship between perceived service quality, customer satisfaction and customer’s behavioural intentions.
3. To measure service quality and compare major players on service quality, customer satisfaction and behavioural intentions.
4. To examine the effects of demographic factors on customers’ perceptions of the service quality, customer satisfaction, and behavioural intentions.

1.5 Contribution of the study

1.5.1 Theoretical Contributions

Firstly, this study will contribute to the marketing literature by providing an empirical examination of the multidimensional nature of service quality. The literature review in Chapter Two notes the context-specific nature of service quality and emphasis the need to adapt the service quality scale. Quality is considered as a difficult concept in the social sciences since it means different things to different people. Since this thesis is focused on banking and insurance industry in India, measurements of service quality must be adapted to reflect the context. By considering the context-specific and complex nature of
service quality, empirically testing the multidimensional concept of service quality adds richness to the service quality construct in the banking and insurance sector.

Secondly, the theoretical contribution of this thesis lies in the application of the integrative model as proposed in the hypothetical model (Figure 3.2). This thesis examines the applicability of the hypothetical model in Indian banking and insurance industry. The earlier studies have mostly employed service quality, customer satisfaction. This thesis adds behavioural intentions to the relationships model and simultaneously assesses all the three constructs in order to see the nature of the relationships. Simultaneously investigating the relationships between all the three constructs (SQ, CS, and BI) might provide a more accurate and comprehensive picture of the nature of the relationships. In addition, there were also different opinions and findings relating to the causal ordering of service quality on customer satisfaction and then on behavioural outcomes (Brady & Robertson 2001). Since the nature of the interrelationships across the constructs of interest is still the subject of an ongoing debate, research in this area is very open. Empirical evidences would verify the nature of the relationships, particularly in the Indian banking and insurance sector.

1.5.2 Implications for service providers

The multidimensional context specific conceptualization of service quality will allow, service providers to have a more detailed and clearer understanding of the various aspects of the construct. A service quality instrument so developed can be used by managers for periodic monitoring of service quality as perceived by customers. It will also provide directions to service providers as to which particular dimension require attention in terms of their importance. This would enable the service providers to focus resources in accordance with the importance of these dimensions. Further, the service quality index derived by aggregating the scores on these dimensions can also be developed, which can be used for benchmarking their performance against competitors.
By identifying the structural relationships in the hypothetical model, it will show the relative degrees of importance among the two constructs (SQ, CS) on behavioural intentions. Therefore, managers and administrators could focus on which factors contribute most to the development of positive behavioural intentions. The research findings will also provide practical information about what customers of different demographic backgrounds consider important in their evaluation of service quality and the effect that these quality perceptions have on the higher-order constructs.

Overall, by understanding the service quality concept in the Indian banking and insurance context thoroughly and its linkages to satisfaction and behavioural intentions, this research will provide marketers with an opportunity for developing and implementing services marketing strategies to ensure a high quality of service, enhance customer satisfaction, and increase favourable behavioural intentions.

1.6 Assumptions and limitations

The study is limited to the consumers of Gujarat region in both banking and insurance sector. An assumption of this study is that the consumers surveyed for this study are representative of the consumers of Gujarat region. Another assumption is that these consumers have a more informed idea about what their expectations and perceptions are of their service experiences. The consumers are willing to help in improving the service quality provided and hence would have answered objectively and to the best of their knowledge. The findings from the questionnaire responses are based on self reported data. The results of the study were limited to the validity and reliability of the survey instrument. The results of this study should be generalized with caution to consumers of other region or for the time period other than the year in which this study is being conducted.
1.7 Definitions of Constructs

**Disconfirmation:** Disconfirmation is defined as the difference between consumer’s expectations of service quality and the perceptions of actual service delivered.

**Expectations 'E':** “How or what individual customers feel the service provider should offer” (Parasuraman et al. 1988). They emphasize that the term expectations is used differently in the service quality literature than it is in the customer satisfaction literature in that service expectations(E) do not represent predictions about what service providers “would offer, but rather what they ‘should’ offer (Parasuraman et al. 1988).

**Perceptions ‘P’:** Customers beliefs concerning the service received (Parasuraman et al. 1988) or experienced service (Brown & Swartz 1989).

**Service Quality:** Service quality is viewed as a function of the magnitude and direction of the gap between expectation and perception of the performance received (Parasuraman et al. 1985).

**Satisfaction:** Satisfaction is the consumer’s evaluation of a product or service meeting their needs and expectations. Oliver (1980) explained that customer satisfaction entails the full meeting of customer expectation of the products and services.

**Behavioural Intentions:** Behavioural intentions occur when customers say positive things, recommend company, remain loyal to company, spend more with company and pay price premium. Behaviour intentions may be viewed as indicators that signal whether customers will remain with or leave the company. Behaviour Intentions are individual-level behavioral consequences of service quality (Parasuraman et al. 1996).
1.8 Structure of Thesis

This thesis comprises seven chapters with the given details (Figure 1.1). Chapter 1 provides an overview of thesis which contains introduction, background and importance of the study, purpose of research, research objectives, contribution of the study, assumptions and limitations, definitions of the constructs and structure of the Study. Chapter 2 provides review of related literature. Chapter 3 includes development of the research approach based on the literature review. Chapter 4 consists of methodology, research design and data analysis methods. Chapter 5 provides an analysis of data and presentation of results of phase I. Chapter 6 includes data analysis and results of phase II. Chapter 7 contains a summary of findings and conclusions.
Figure 1.1 Structure of thesis

Chapter I
Introduction

Chapter II
Review of Literature

Chapter III
Development of Research Approach

Chapter IV
Methodology

Chapter V
Data Analysis and Results - Phase I

Chapter VI
Data Analysis and Results - Phase II

Chapter VII
Findings and Conclusion
CHAPTER 2
REVIEW OF LITERATURE

This chapter reviewed the relevant literature on service quality, its measurement and relationship with customer satisfaction and behavioural intentions. This chapter provides the theoretical base for this study, supported by relevant concepts and literature in the area of service quality and its measurement. The objective for this literature review is to broaden the understanding of service quality, considering the gap between expectations and perceptions of service quality and how service quality and other constructs relate.

2.1 Service Quality Theory

2.1.1 Service

Services is defined as “an activity or series of activities of more or less intangible nature that normally, not necessarily take place in interactions between the customer and service employees and/or physical resources or goods and/or system of the service provider, which are provided as solution to customer problems” (Gronroos 1990). Lovelock (2001) defines service as “an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is essentially intangible and does not normally result in ownership of any of the factors of production”.

The rationale for a separate treatment of service marketing centers on the existence of number of characteristics of services which are consistently cited in literature-intangibility, heterogeneity, perishability and inseparability of production-consumption (Zeithaml et al. 1985). Theories and frameworks relating to service are also mostly developed and driven according to these four characteristics of services. Each of these unique characteristics of services leads to specific problems for service marketers and necessitates special strategy for dealing with them. It becomes essential to have a clear