CHAPTER 2
REVIEW OF LITERATURE AND CONCEPTUAL FRAME WORK

2.1  REVIEW OF LITERATURE

2.1.1  Service Quality – An Introduction

Lovelock et al. (2010) defined “A Service is an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is transitory, often intangible in nature, and does not normally result in ownership of any of the factors of production.

Parasuraman et al. (1985) explained the service quality gap is the difference between customer expectations and Perceptions. Customer expectations are standards or reference points that customers bring into the service experience, whereas customer perceptions are subjective assessments of actual service experiences. Quality perceived in service is a function of the gap between customer desires/expectations and their perceptions of service that is actually received.

The major liability for a good service quality system rests with the management of the organization and they should establish a policy for service quality and customer satisfaction. The effective operation of a quality system is depends upon the management commitment for implementing the policy so as to achieve the quality objectives.
2.1.2 Application of SERVQUAL

SERVQUAL is the most widely used scale for measuring service quality. Initially, it has been used by many researchers to test its reliability and validity by applied in different services including Credit card companies, Stock exchange companies and Universities, Library and information systems, IT Context. The modified SERVQUAL scale was also used in many research works to examine the service quality in different service encounters.

Balaji et al (2011) tried to take a look across ten different service dimensions of SERVQUAL across the banking services and found that the factors communications, competence and courtesy are observed to be significantly and negatively differ in their mean scores. Expectation levels of these dimensions are significantly higher. It is seen that only 60% of the expectations are almost met by the banks. Customer focused service and continuous improvement are important considerations in service industry.

Kumar et al (2010) aimed to find the differences in the service quality (if any) between two types of banks, namely conventional and Islamic, in terms of common critical factors after re-examining the SERVQUAL model, originally pioneered by Parasuraman et al (1985) and revealed that modified SERVQUAL model consists of four critical factors (dimensions) as detected by factor analysis: tangibility, reliability, competence, and convenience and the expectations on competence and convenience are significantly different between conventional banks and Islamic banks whereas the perceptions on tangibility and convenience are found to be significantly different between these two types of banks.

Mishra (2012) analysed the multi dimensional construct of customer satisfaction and its implications in competitive environment by conducting a empirical research in public and private sector banks through
SERVQUAL and concluded that the banks have to improve the service attitude of the staff and reduce the transaction time to improve customer satisfaction and stop the negative feelings of the customers. Bankers should also gear up themselves to handle the grievances more quickly and efficiently.

Dharmalingam et al (2012) assessed the service quality dimensions of new private sector banks in Erode district of Tamilnadu with four extra contemporary validated variables empirically and found that there exists a more gap between customer expectation and perception in Reliability, Price and Product variety. It is also found that customer is having highest expectations in Security and Accessibility and lowest expectations in Empathy. In addition to that, they are having highest perceptions in Accessibility and lowest in Responsiveness.

Munhurrun and Naidoo (2011) attempted to explore the potential dimensions of Internet service quality and examines its impact on customer satisfaction and customer behavioural intentions in the banking context in Mauritius and the result revealed that the most salient dimensions in this study was accessibility, followed by Reliability–Responsiveness, security, and ease of use. The result showed evidence that the Internet banking service dimensions such as Reliability–Responsiveness and accessibility were found to be a good predictor of customer satisfaction.

Glaveli et al (2006) examined the differences in perceptions of service quality and in the ranking of quality dimension between the bank customers of five Balkan countries using Bank Service Quality (BSQ) and explored that customers are perceiving lower level of service quality except Greece. In addition, effectiveness, price and reliability appear to be the most important factors in the creation of perceptions of the service quality received in the five Balkan countries and access the least important.
Ganesh (2012) has applied SERVQUAL model for measuring service quality and analysis of behavioural intention of bank customers in Virudhunagar district and found among the service quality dimensions, the service gap is more for responsiveness followed by Empathy, Reliability, Tangibility and Assurance.

Rao and Lakew (2011) measured the service quality perceptions of customers of public sector and private sector banks in the city of Visakhapatnam of India and revealed that Reliability and Assurance dimensions are the two that scored the highest value while the Tangibles as a dimension of service quality got the lowest value. In case of the public sector banks, the Reliability dimension of service quality scored the highest rating while the Responsiveness dimension got the lowest value. On the other hand, the Assurance dimension of service quality relatively got highest score for the private sector banks while the Tangibles dimension scored the lowest rating. It also revealed a strong dissimilarity of profile in the customers’ service quality perceptions. Private sector banks need to focus more on Tangibles, Empathy and Responsiveness to enhance quality perceptions of the customers.

Hamer (2006) studied the relationship between consumer expectations and perceptions of service quality and revealed that service quality perceptions result from a process of confirmation which suggest that under-promising will result in lower quality perceptions; moreover, high expectations of lowest perceptions are in Competence area and Reliability and banks need to consider the weak areas in order to meet the customer requirement. Service performance will be associated with high perceptions of service quality. Thus, rather than trying to maximize the delivered service expectations gap, practitioners who seek to maximize their clients’ perceptions of quality should attempt to eliminate this gap.
Hossain and Leo (2009) has conducted a research study on service quality in retail banking and the result revealed that highest customer perception are demonstrated in tangible area and the raising of expectations. Consumer expectations are positive predictors of perceived service quality (i.e. higher expectations lead to higher perception of quality). Another finding is that the relationship between expectations and perceived service quality is much stronger.

Kumar et al (2010) has attempted to examine the service quality dimensions of Indian Private banks dealing with retail banking and the result suggested that Responsiveness and Reliability of service quality dimensions determine customer satisfaction more than the Assurance, Empathy and Tangibles aspects. Improving service quality can increase favorable behavioral intentions.

Bojanic and Rosen (1994) have applied the SERVQUAL scale in Restaurant sector and studied the service quality gaps along with six dimensions namely Tangibility, Reliability, Responsiveness, Assurance, Access and Knowing the customer. It is revealed from the work that out of all dimensions considered in the study, Knowing the customer is having a small service quality gap then followed by Reliability and Assurance.

Chowdhary and Prakash (2007) undergone a study to investigate if any generalization in importance of service quality dimensions is possible and found that no simple generalization of relative importance of determinants of service quality is possible. Thus, it must be noted that importance of determinants of quality for customers would vary across different service types.

Olorunmiwo et al (2006) investigated the nature of service quality construct and its relationship to customer satisfaction and behavioural
intentions through development of operational service and revealed that there is a significant direct effect found between service quality and quality construct. The result also revealed that the dominant dimensions were Tangibles, Recovery, Responsiveness, and Knowledge.

Natalisa and Subroto (2003) analysed the effect of management commitment to service quality on the level of customer satisfaction in Indonesia domestic airlines and found that the majority of customers are not satisfied with the level of service quality and all the five dimensions are positively affect the Customer satisfaction out of which the dimension Assurance has the strongest effect.

2.2 SERVICE QUALITY, CUSTOMER SATISFACTION AND LOYALTY

"If you cannot measure it, you cannot improve it."
- Lord William Thomson Kelvin

Satisfaction is the consumer’s fulfilment response including levels of under-or overfulfillment (Oliver 1997) in (Rossonme 2003). Ernest et al (1987) explained that “it is a feeling developed from an evaluation of the use experience”.

Customer satisfaction measurement is quite a complex issue and helps to promote an increased focus on customer outcomes and stimulate improvements in the work practices and processes used within the company. Organization can identify their own strengths and weaknesses, by knowing their present position in comparison to their competitors, and make plan for further progress and improvement in order to measure and track customer satisfaction which is an antecedent for customer retention and loyalty.
Debasish (2009) in his study observed that foreign Banks provide better service quality than Private and Public Sector Banks and Public Sector Banks have failed to adequately satisfy the customers. There is a closed competition between the private sector banks and foreign banks for gaining the largest market share by providing excellent service.

Hoza and Srivastava (2010) have attempted to examine the strength of association between Service quality, Customer satisfaction, Customer loyalty and Customer commitment. They also tried to explore the difference in perception of these variables between the public and private banks. The study revealed that there is a significant difference found between public and private banks with regard to Customer satisfaction, Commitment and Loyalty. Public sector banks should focus on Assurance-Empathy, Tangibles and the private sector should focus on providing reliable services.

Bedi (2010) attempted to investigate the relationship between Service quality, Overall customer satisfaction and Behavioral intentions across public and private banks in India. The Findings indicated that Service quality is a significant determinant of Customer satisfaction in Indian banking industry irrespective of public and private sector banks. Service offered by Private Banks has a more favorable influence on actual perceptions of Service quality received than Public Sector Banks. Banks should be looking carefully at each one of the dimensions where customers perceive at different service than expected and consider the extent to which they should work on influencing expectations or both.

Elangovan and Sabitha (2011) conducted a study to analyze the awareness, level of satisfaction towards internet banking services in commercial banks in puducherry territory and found that there is no significant difference in the level of satisfaction of the respondents belonging to different age, education and occupation except income. Awareness level
about internet banking is very less among customers. Banks have to conduct customer meet regularly to educate the customers on internet banking. The authors also advised bank to distribute booklets containing information about the new schemes and it can be distributed directly to the customers. Banks have become more efficient in providing customer satisfaction through technology advancements.

Jeevananda (2011) studied the influence of customer loyalty programs on buying decisions and found the influence is very minimal. Loyalty program benefits is ranked sixth place out of seven parameters from the respondents. The reason attributed for the same was customers have given more importance to factors like range of products, availability of National and International brands, Store ambience, Staff behaviour etc. As a result the influence of loyalty program benefits was suppressed.

Desta (2011) assessed and measured the banking service quality perception of the State Bank of India, Punjab University branch customers and examining the relationship between Service quality, Customer satisfaction and Positive word of mouth. The result revealed that the expectations of bank customers were not met and that the largest gap was found in the Reliability dimension. This dimension also had the largest influence on Customer satisfaction and Overall satisfaction of bank customers had a positive effect on their word-of-mouth.

Maiyaki and Mokhtar (2011) investigated the influence of perceived Service quality, Perceived value, Corporate image and Switching cost on the consumer behavioural intention in the context of Commercial banks in Nigeria and concluded that Service quality, Corporate image and Customer perceived value has a significant influence on Consumer behavioural intention in the Nigerian commercial banks.
Al-Zoubi (2013) attempted to examine how customers perceive and judge quality in mobile telecom industry in Jordanian Telecom sector among the university students and the result revealed that SERVQUAL dimensions had a significant impact on Customer loyalty except Physical appearance and Assurance. The author also suggested focusing on improving customer relationships through continuous improving in quality service as a competitive policy in the Jordanian telecom market.

Abukhalifeh and Som (2012) examined the Service quality management in Hotel industry in view to analyze why guests revisit a hotel and why a high –quality service from the Food and Beverage department is needed and remained unanswered. The results of the study revealed that guests directly gain loyalty from the service quality dimensions like Tangibles, Reliability, Responsiveness, Assurance and Empathy. When they perceive high service quality, they will ultimately turn into a loyal guest of specific services.

Kaynak and Harcar (2005) examined the application of geodemographic segmentation to the service industry by using commercial bank sectors to analyze whether the bank provide the required banking services to its diverse market segments and its available resources and competencies can match the current needs and expectations of its target market. The results indicated that there are substantial differences between customers of Local and National banks in their evaluation of the relative importance of bank service charges and overall confidence in the bank. Compared to National banks, Local banks were evaluated more positively by customers in areas such as Extra services offered by the bank, Image of the bank, and Convenience of the bank.

Al-Hawari (2011) highlighted the significance of automated service factors (Convenience; Queue management; Personalization; Responsiveness,
Security), Customer trust, and Delight in Customer commitment within the United Arab Emirates (UAE) banking context. Automated service quality has become a competitive weapon because it is easy to duplicate a bank product, but not a level of service. Therefore, by understanding the outcomes of automated quality, benefits are available to banks in terms of enhancing the level of service quality, gaining competitive advantages, expanding their market share, increasing their innovation ability, and finally improving the bank performance. The study revealed that most of the automated factors have no direct relationship with customer commitment, but an indirect one through customer trust and delight. Automated factors have a direct and positive influence on customer delight, which in turn has a direct influence on both customer trust and customer commitment. Customer trust is also related positively and directly to customer commitment.

Ennew and Binks (1996) studied the impact of Service quality and Service characteristics on Customer retention and revealed that service quality is widely seen as a key antecedent to successful customer relationship and it provide the basis for enhanced loyalty, retention and improved business performance. Customer retention is an issue which is of increasing importance for all business particular to banking service where it is noticed that retention is seen as a central to improved business performance.

Singh and Kaur (2011) determined the factors that have an impact on Customer satisfaction of select Indian universal banks and found that customer satisfaction is influenced by seven factors: Employee responsiveness, Appearance of tangibles, Social responsibility, Services innovation, Positive word-of-Mouth, Competence, and Reliability and three variables. Social responsibility, Positive word-of-mouth and Reliability are statistically significant at 5 percent significance level and have an impact on the Overall satisfaction of the customer.
Bitner (1990) found that the elements of the expanded marketing mix should be included in strategies for improving service encounter satisfaction and also there is lack of customer-driven research for providing basis for planning strategies to the elements of marketing mix. Strategies relating to training, monitoring and motivating service personal and to the design and control of consistent physical evidence should be developed on the basis of customer input and recognition of the marketing impact of these elements.

Howcroft et al (2003) examined the situation through which consumers of financial services perceive a benefit from having a banking relationship and the basis of motivation of relationship. It is found that the customers, while perceiving a benefit from the bank seek to create the relationship irrespective of social class. The result also revealed that younger consumers are more liable to purchase specialist services from their primary bank compared to older consumers in the same social class and underlined that the nature of financial service also influenced the choice of delivery channel, with face to face interactions being preferred by all customers, irrespective of age and social class, when purchasing specialist services.

Farrell et al (2001) found that Customers' service quality evaluations are based almost entirely upon the behaviours of frontline employees, organisations rely heavily upon these employees to improve overall service quality provision and the implementation of service quality principles is not just focussing on customers' perceptions of service quality, should offer precise practical guidance for organisational practices that should enhance service quality offerings.

Walker et al (2008) pointed out that scoring of customers and their rating level with respect to each dimensions determines the degree within-
branch agreement concerning customer satisfaction and improvements in upward feedback scores will show the improvements in customer satisfaction.

Akroush and Khatibat (2009) analyzed and pointed out in their studies that service quality dimensions (Functional and technical) have positively and significantly affected banks performance assessed based on financial performance and customer indicators.

Laurenceson (2007) informed that positive impact of financial development extends not only to economic growth but also to poverty reduction. Highly profitable banks could lead to increased public confidence in the formal financial sector and hence a greater willingness to hold savings deposits at any given interest rate.

Hui et al (2001) analysed that branch where service quality leaders were randomly selected for Training. Customer satisfaction and Conformance improved more than they did in a branch where no Service quality leaders were trained. Good organizational citizens can be trained to lead their colleagues effectively for providing better-quality service to customers.

Yuvas et al (2004) examined the relationship among Service quality, Background characteristics and Satisfaction through selected behavioural outcomes in retail banking of Germany and the result suggested that service quality is at the root of customer satisfaction and is linked to behavioural outcomes with different aspect of service quality and characteristics are associated with different outcomes. It is also suggested to enhance service quality for inducing greater satisfaction so as to attain higher level of favourable outcomes.

Bojei and Alwie (2010) advocated that good interpersonal relationship helps to strengthen the relationship between the customer and
service employee and develop trust between them thereby delivering a reliable and quality service which has strong influence on customer’s trust as well as their loyalty.

Abdullah and Francine Rozario (2009) informed that service quality and place ambience had a positive relationship and this may have influence customer satisfaction. Customer satisfaction increases when they perceive reliability of information provided is high.

Munusamy et al (2010) pointed out that in order to maintain the customer, the organization needs to ensure that the right products and services, supported by the right promotion and making it available at the right time for the customers. There exists a positive relationship between reliability with customer satisfaction. Similarly, the other attributes such as; Assurances, Tangibles, Empathy and Responsiveness all have positive relationship with customer satisfaction. It is far more difficult to measure the level of performance and satisfaction when it comes to the intangible expectations. One of the ways to help obtaining loyal customers is by having products and services that are so good.

Kailash (2011) pointed out in banking sectors, customers’ perception is maximum in the Tangibles area and minimum in the Responsiveness area. Banks improved qualities of service they are delivering have not yet resulted in improved customer perceptions. The Banking industry should be alert to meet ever increasing and ever more demanding customer needs by maintaining a strong relationships with their customers. Banks that can offer the growing ranks of sensitive customers with a high quality service, while being personalized and competitively priced, will be the ones that succeed with the benefit of considerable expansion opportunities in these new economies.
Berry et al (1990) pointed out that company can achieve a strong reputation for quality service only when it consistently meets customer service expectations. A company which is interested in improving service quality should improve in terms of five service imperatives (i.e.) define the service role, compete for talent (and use it), emphasize service teams, go for reliability and be great at problem resolution.

Lewis (1991) compared bank customers expectation and perception internationally in UK and US and found that customers were found to have very high expectations of service from their banks across most of the dimensions which were investigated in particular with respect to the Reliability Honesty, Trustworthiness and Discretion of contact staff and perception of service actually received were also high and the respondents were generally satisfied or very satisfied with most of the service quality criteria being assessed with some significant difference between them.

Tam (2004) examined the relationships among Customer satisfaction, Service quality and Perceived value empirically from an encounter purchase perspective and revealed that Customer satisfaction and Perceived value significantly influence Post-purchase behaviour. They also found that repeated behaviour occurs only when the firms design strategies to enhance customer perceptions of the value of a service and to succeed in the competitive marketplace, it is not necessary for a firm to offer the highest quality service or the lowest price. Perceived value can offer greater competitive leverage as it not only contributes to customer Satisfaction, but also encourages repeated purchases.

Bowen and Chen (2001) pointed out that there is a positive association between Customer loyalty and Profitability. It is also pointed out that increased market profit comes from reducing the costs as enrolling new
customer is more expensive than retaining the existing one since they know the product and require less information.

Jahanshahi et al (2011) advocated that quality of customer service and the quality of products promotes customer satisfaction, and also there is a positive relationship between customer satisfaction and customer loyalty in the context of the Indian Automotive industry.

Kadir et al (2011) tried to identify the effects of services offered by Malaysian banks through Online media and ATMs on Customer satisfaction and found that ESERVQUAL model were found unable to respond customers’ need and banks are required to improve their services related to dimensions of ESERVQUAL in order to fulfil it.

Thurau and Klee (1997) pointed out that the product or service related quality perception as conceptualized here is interpreted as the component relationship quality and additionally customer retention does not contain any attitudinal aspects. In customer retention, the marketer is taking the active (i.e. retaining) role in the marketer customer dyad, whereas the behavioristic repeat purchase concept pays no attention to the factors underlying the displayed behavior. Hence, customer retention aims at repeat purchase behavior which was triggered by the marketing activities carried out by the organization.

Brown et al (1993) informed that service quality has become increasingly important to retailer’s strategies and if service quality is to be a cornerstone of a retailer’s strategy, they must have the means to measure it.

Jones and Taylor (2005) explained that loyalty reflects various customer propensities towards the service firm and focused on behavioral outcomes operationalised as repeat purchase intentions or a purchase
sequenceing behavior of consumers and through this study, they provide an empirical evidence that service loyalty is manifested both behaviorally and attitudinally and managers need to identity true loyal customers and firms should, at the very least, include measurement of both dimensions.

Anderson and Sullivan (1993) attempted to investigate the antecedents and consequences of customer satisfaction and found that satisfaction was increased with both perceived quality and disconfirmation and have a positive impact on repurchase intentions. They also informed that there is no difficulty to manage satisfaction with the customers who are familiar with the products. The elasticity of repurchase intentions with respect to satisfaction is found to be lower for firms that provide high satisfaction and this implies that a long run reputation effect insulating firms consistently provide high satisfaction.

Bose and Gupta (2013) investigated the service quality difference between the Public sector and new generation banks using SERVQUAL and the result revealed that new generation private sector banks are perceived to provide better service quality as compared to public sector banks and also the overall perception of service quality provided by the new generation banks were significantly higher than the public sector banks.

Mohammad and Alhamadani (2011) examined the level of Service quality as perceived by the customers of commercial bank working in Jordan and its effect on Satisfaction using SERVQUAL and the result of the study revealed that the service quality is an important antecedent of customer satisfaction having significantly influenced it and they suggested that bank managers seeking to improve their customer's satisfaction level which subsequently increasing loyalty, retention rates and attraction new customers through the effect of individual dimensions of service quality on customer satisfaction.
Ravichandran et al (2010) examined the influence of perceived service quality on customer satisfaction in private banking industry by applying SERVQUAL and the result revealed that the service quality gap scores for all the dimensions are positive which indicates that the perception is greater than expectation by the customers. In addition, only the dimension Responsiveness is having significant predictor of Overall customer satisfaction.

Singh and Khurana (2011) investigated the level of service quality of private banks from the customer perspective together with assessing their satisfaction and the result showed that the customer perception level is lower than the expectations. In addition, there is no significant difference found among the gender with overall satisfaction.

Akbar and Parvez (2009) investigated the effects of perceived service quality, trust and customer satisfaction on customer loyalty using structural equation modeling and result revealed that trust and customer satisfaction are significantly and positively related to customer loyalty. It is also pointed out that satisfaction has found to be a important mediator between the service quality and customer loyalty. The authors also suggested that the management should focus on satisfaction through service quality which is an important antecedent for it.

Wang and Shieh (2006) examined the overall user satisfaction in CJCU Library, Taiwan and the result revealed that overall service quality has a significantly positive effect on overall user satisfaction. Regarding the effect of service quality dimension, except Responsiveness, all other construct are having significantly positive effect on overall satisfaction.

Hawari et al (2005) attempted to measure the automated service quality in banking sectors along with critical determinant using five factors
ATM, Telephonic banking, Internet Banking, Price and Core service quality and the result revealed that all the five construct have exhibited a strong unidimensionality, reliability, convergent, discriminant and criterion related.

Lien and Kao (2008) investigated the relative importance of service quality dimensions on customer satisfaction across utilitarian and hedonic services and revealed that in utilitarian services like banking, technical quality has a stronger impact on satisfaction than functional quality and in hedonic services, functional quality is more influential than in utilitarian services and it is also noted that alternative differentiation has a major impact on the nature of the relationship between quality dimensions and customer satisfaction for both the services.

Sachdev and Verma (2004) attempted to study the relative importance of service quality dimensions across the selected service context and the result revealed that all the service quality dimensions are equally important and no proper order of importance could be established along with poor performance in case of expectation in all the sectors. In addition, the nature of services is not playing any role in establishing the order of importance of service quality dimensions validity and consequently accepted the five factor structure.

2.3 RESEARCH GAP

From the sequence of earlier works, it is seen that relationship between Service quality, Customer satisfaction and Loyalty has been studied only in commercial banks encompassing public sector, private sector banks and foreign banks with various results. But there is no such direct study in connection with evaluation of service quality and its impact on satisfaction and loyalty in India’s post office banking sector has been done so far as it is one of the primeval and prevalent banking sector performing its task in urban
and rural areas through large number of branches over a long period of time since inception. While reviewing the past research work carried out in this sector, it is noted that Ramyadevi (2011) has discussed only the performance of postal services and its impact on customer satisfaction. Srinivasan and Lakshmi (2006) have discussed in their literature about the thrust of rural investment on Post office savings schemes. Massimo Filippini and Zola (2005) have attempted to study the cost efficiency in the postal services. This is the major gap actually identified and it is indecisive to ask whether the quality of services delivering by the sector under consideration actually fulfilling the customer needs and entirely satisfied them. To examine this, the researcher have tried to investigate the expectation and perception of the customers in terms of service quality and its impact on customer satisfaction and loyalty in India’s post office savings banking sector empirically using SERVQUAL.

2.4 STATEMENT OF THE PROBLEM

Now a days, the size of the service sector is increasing almost in every bit of economies around the world and moving to innovative change and the quality in fiscal services sector has gained principal value by increasing marketing contour of bank branch operations over time. Recent trend has also been changed from market centric to customer centric and customers are constantly evaluating the products and services against those of its competitors and variation in the quality in services may lead to competitive disadvantage to the organization.

In view of this competition, continual service improvement for product quality and delivery should be evaluated with key performance indicators which will substantiate their performance metrics identical to all sectors and thus evaluating impact of service quality on customer satisfaction, an antecedent for further behavioral intention of the customers is mainly
important to prove the capability of every financial organization in view of the fact that the future performance would become increasingly crucial in the next decade.

Hence every financial services organization should ensure that the task of product management maintains a strong consumer focus at all times by understanding today’s customer desires and market place offering as well as future innovations together with improved service quality for fulfilling their long-term objectives.

As India’s post office savings banking sector, a significant function of Indian postal services is the most primeval and extensive network based sector in Indian banking cluster, it is uncertain to ask whether the quality of services delivering by this sector actually meets the expected level of satisfaction of the customers. As a result, intensive assessment in quality of services delivering by this sector and its impact on customer satisfaction and loyalty are becoming progressively more important since satisfaction is the key indicator for future behavioral intention. Consequently customers of India’s post office savings banking sector were considered for this research and they were interviewed through a self-administered questionnaire from Salem District in Tamilnadu, India.

2.5 PROPOSED RESEARCH MODEL

Figure 2.1 shows a projected research model for measuring the impact of service quality on customer satisfaction and loyalty in India’s post office saving banking sector.
2.6 CONCEPTUAL FRAME WORK

Ours is a service economy and it has been for some time.

- Karl Albrecht and Ron Zemke

2.6.1 Service Quality

Service quality is an intangible, heterogeneous and indistinct construct which cannot be measured in an objective manner like product quality and it is very essence for customer satisfaction and focus which are so critical for competition services.

In order to develop a service product, the organization should focus on customer benefit concept, service concept, service offer, service forms and service delivery system.

While reviewed the earlier research work, various dimensions have been formulated by the researchers for measuring service quality. Garvin

SERVQUAL become widely used measuring instrument for service quality and it can be measured as the gap between the expected service quality by the customers and the actual performance they perceived and received. Respondents rate their expectations of service from an excellent organisation, and then rate the performance they perceived in a specific organisation. The difference existing between the two scores is considered as a gap in Service quality (Perception-Expectation (P-E)).

The conceptualization and dimension of service quality have been principally debated and large number of controversial topics in the respective literature of Cronin and Taylor (1992), Teas (1993) Babukas and Boller (1992), Brady et al (2002) were found in the services marketing stories.

But Parasuraman et al (1994) in their work again countering the statements of the above authors explaining in such a way that the current approach for assessing service quality should be refined instead abandoning it altogether in favour of the alternate approaches framed by the above authors does not seem warranted. The collective conceptual and empirical evidence casts doubt on the alleged severity of the concerns about the current approach and on the claimed superiority of the alternate approaches. Critical issues remain unresolved and we hope that the research agenda we have expressed will be helpful in advancing our knowledge. While SERVPERF scale is a more convergent and discriminant valid explanation of the service construct,
possesses greater power to explain variations in the overall service quality scores, and is also a more parsimonious data collection instrument, it is the SERVQUAL scale which entails superior diagnostic power to pinpoint areas for managerial intervention. For identifying the areas of a firm’s service quality shortfalls for managerial interventions, one should prefer the SERVQUAL scale because of its superior diagnostic power as the scale items are good predictors of overall service quality.

SERVQUAL model appears to be distinct from the others because it uses terms that describe one or more determinants of a quality service encounter, it has been widely used by researchers in their literature and research work like Arembewela and Hall (2006), Pakdil and Aydin (2007), Saleh and Ryan (1991), Vanpariya and Ganguly (2010).

Woodall (2001) pointed out that development of the new model should, without reasonably excluding or diminishing characteristics relevant to other models.

Although the five service dimensions presented earlier provide a frame work of service quality of an organisation, each company must still do its own research to measure the relative importance of the service dimensions among customers, prospects and different market segments. In today’s context, firm must also assess new marketing concepts introduced by the competitors to the customers for sustaining their ultimate position in the market. Owing to this, one significant factor “COMPETENCE” which was considered and included earlier in SERVQUAL model is taken up for consideration in this study along with five refined variables in view to measure the company and competitor’s performance against customer expectations along with the competency level of organization due to external
and internal factors in its business environment. A conceptual framework is designed for measuring the service quality in India’s post office savings banking sector based on the objectives and previous literature available in this particular field.

2.6.2 Customer Satisfaction

Javed (2005) stated that customer satisfaction is the state of mind that customers have about a company when their expectations have been met or exceeded over a life time of the product or service and the achievement of satisfaction leads to company loyalty and product purchase. It was also pointed out that customer satisfaction is a proportionate behavior between inputs before hand and post Purchase behavior.

Based on the extensive literature review of well established constructs, the following variables are listed in the interview schedule for Customer satisfaction in India’s post office savings banking sector as noted in Table 2.1. The customers are asked to rate the 5 variables listed below at 5 point Likert Scale according to the level of perception.

**Table 2.1 Variables in customer satisfaction**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables</th>
</tr>
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<tbody>
<tr>
<td>01</td>
<td>Considering everything, I am satisfied with my Post Office savings bank branch.</td>
</tr>
<tr>
<td>02</td>
<td>I am satisfied with the personal contact of staff</td>
</tr>
<tr>
<td>03</td>
<td>Choice of mine to use this bank is good</td>
</tr>
<tr>
<td>04</td>
<td>My experience with this bank has been enjoyable</td>
</tr>
<tr>
<td>05</td>
<td>My Post office savings bank always meets my expectations</td>
</tr>
</tbody>
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2.6.3 Customer Loyalty

“Loyalty indicates a commitment to the support of a relationship”

- Zikmund, McLeod and Gilbert

Choice process for services is inherently risky with many unknowns; the experience itself often dominates the evaluation process and plays a critical role in evaluation process and the decision for repurchasing. Baran et al (2008) have given three entirely different definitions of loyalty. They are:

1) Behavioral Loyalty: Simple look at the brand(s) purchased.

2) Affect Loyalty: Affects are the feeling components of an attitude and include “liking” and “Preference”. Loyalty is determined not simply by looking at what is purchased but also by looking at a person’s “Liking” and “Preference” of the brand.

3) Situation-Specific Model of Loyalty: The relationship between attitudes and behavior is moderated by other variables such as an individual’s economic circumstance, personality, and the buying situation. Consumer may forgo purchasing a brand they like and prefer because of another brand’s promotion or availability.

Suki (2011) pointed out that customers should be satisfied with the services in order to gain trust and remain loyal to them and also pointed out that responsiveness did directly lead to satisfaction.
As far as Customer loyalty is concerned for this study, the following variables are listed in the interview schedule of India’s post office savings banking sector as noted in Table 2.2. The customers are asked to rate the 5 variables listed below at 5 point Likert Scale according to the level of perception.

**Table 2.2 Variables in customer loyalty**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>I will say positive things about my bank to other people</td>
</tr>
<tr>
<td>02.</td>
<td>I Recommend my bank to someone who seeks my advice</td>
</tr>
<tr>
<td>03.</td>
<td>I encourage friends and relatives to do business with my bank</td>
</tr>
<tr>
<td>04.</td>
<td>For any financial transaction, I consider my bank as first choice</td>
</tr>
<tr>
<td>05.</td>
<td>I will definitely increase business with my bank in the forthcoming years</td>
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### 2.7 SERVICE –PROFIT CHAIN MODEL

The service profit chain model of business performance has identified customer satisfaction as a critical intervening variable in this relationship between internal service quality and employees’ satisfaction, retention and productivity and its impact on external service value, customer satisfaction and loyalty which is an antecedent for profitability and revenue growth of the organization. The schematic diagram of the model is given in Figure 2.2.
Figure 2.2  Service profit chain model

Heskett et al (1997) in Gelade and Young (2005) defined the Service Profit Chain as „involving direct and strong relationships between profit, growth, customer loyalty, customer satisfaction, the value of goods and services delivered to customers, employee capability, satisfaction, loyalty and productivity. Stock (2011) attempted to provide deeper insights into the link between the innovativeness of a company’s offered goods/services and customer satisfaction and the result revealed that customer satisfaction does not increase proportionally to the increase of innovativeness. The study also indicated service innovativeness increases are essentially associated with increases in customer satisfaction. Even for high innovativeness, the customers’ expected utility exceeds uncertainty due to the customers’ anticipated add-on relational utility with interactive services as opposed to goods
Falk et al. (2010) examined the simultaneous influence of Service quality and Customer experience on satisfaction through nonlinear structural equation modeling and found that functional-utilitarian quality attributes (availability, efficiency, fulfilment, and privacy) lose their capability to delight customers as the customer relationship matures. In contrast, hedonic quality attributes (design, enjoyment, and image) only exhibit an increasing effect on satisfaction for more experienced customers. With growing customer experience, the initially decreasing returns to hedonic quality shift to increase returns after having reached a turning point.

Hosseini and Hosseini (2013) investigated the effect of co-production on customer loyalty and the antecedents for co-production and found that co-production has a positive and significant relationship with attitudinal loyalty rather than behavioral loyalty. But the effect of co-production is mediated to behavioural loyalty only through attitudinal loyalty. The positive relationship between client proficiency and co-production indicates customer who has experience and knowledge in bank services are more likely to participate in co-production activities with employees in order to improve the quality of service they finally received.

Shemwell et al. (1998) developed a model and tested to depict the relationship of service quality and satisfaction levels with the relevant relationship-oriented outcomes like complaint behaviour, affective commitment and an increased propensity to continue the customer-service provider relationship in the context of primary care physician services and found that the service quality has a strong direct effect on patient satisfaction. They also suggested that service quality interventions can be initiated as a means of improving satisfaction and satisfaction mediates the effect of service quality on the outcome patient variables.
Yu (2007) examined the impact of individual customers' on
customer revenue, customer costs, and customer profitability empirically and
found that customer satisfaction is found to be positively associated with
customers’ repurchase intentions and the firms’ reputation. While there is no
significant and positive relationship between customer satisfaction and
customer profitability, customer satisfaction does have a positive impact on
customer revenue and costs.

Roman (2003) analysed the role of ethical sales behaviour on
customer satisfaction with the core service of the organisation, customer trust
in the company and customer loyalty to the organisation and the findings
showed that ethical sales behaviour had a direct influence on customer
satisfaction with the core service but not on satisfaction with the company. In
addition ethical sales behaviour and satisfaction were significantly and
positively correlated with the company. Moreover, the former affected
satisfaction with the company through satisfaction with the core service. It is
also highlighted that the relevance of contact employees' behaviour in
increasing customer satisfaction and the ethical sales behaviour led to
customer trust in the service company.

De Meyer and Mostert (2011) investigated whether passenger
satisfaction influenced and formed a long-term relationship with the airline
industry they are utilising more frequently and revealed that slightly more
respondents were satisfied with the overall service provided by the domestic
airline they fly with most often than those who were dissatisfied. Moreover,
respondents have not formed the long term relationship because of service
and loyalty programme offered by the service provider. The findings of the
study also alarmed about availability of the number of competitors in the
industry as well as the relatively low switching costs associated with moving
from one airline to one of its competitors.
Woodside et al (1989) studied the association between Service quality, Customer satisfaction and Behavioural intention in Hospital Service and found that Customer judgments of specific service events within service acts influenced their Overall satisfaction and it is revealed that the service encounter appeared as a moderating variable between Service quality and Behavioural intention.

Liao and Cheung (2008) construct a framework for measuring consumer satisfaction with internet banking in terms of a core subset of attributes to enhance customer service quality and boost market share in this expanding but increasingly competitive business area. The findings revealed that the upgrading of e-banking web sites should be planned and more resources should be allocated to fight against fraudulent banking over the Internet. The positive impact of reliability highlights the importance of satisfying customer expectations with regard to error-free accounting and service implementation.

Hafeez and Muhammad (2012) focused the impact of Service quality, Customer satisfaction and Loyalty programs on customer loyalty in banking sector of Pakistan and the findings revealed that service quality, customer satisfaction and loyalty programs are the important factors that can increase the loyalty of a customer and pointed out that banks should treat all customers equally in view of having strong relationship for their success.

Edvardsson and Enquist (2006) explored the role of change pressure exerted by the “market” on Governmental services in quality improvement processes by focusing on two levels like operation level and formation of the service systems and found that the service concept must be in line with and match the target group to be served and gap if any exists will have an inherent quality problems. Moreover, the service process must be
understood by both the customers and the employees failing which lead to dissatisfaction among the customers.

Mascio (2010) discussed the service model of front line employees and their interpretation of customer service and the study found three service model among the frontline employees (1) the act of giving customers what they ask for, efficiently and courteously; (2) a means to accomplishing immediate objectives, such as sales quotas; and (3) the formation of mutually beneficial relationships with customers through problem solving. These service models were related to customer orientation, competence, type of acting, and interpersonal values.

Laroche et al (2004) examined the influence of culture on the measurement of service quality and satisfaction in dentists’ office settings by performed manipulation checks on both the expectation and the performance scenarios and the result revealed that four measures of service quality and three measures of satisfaction to be fully invariant across the three country undergraduate business students and also confirmed that some measures of both customer satisfaction and service quality can be non-equivalent across cultures.

Sharma and Mehta (2004) attempted to study the quality perceptions by comparing the four leading banks such as State bank of India, Corporation Bank, UTI bank and Jammu and Kashmir bank so as to reach at logical conclusions through SERVPERF and the analysis revealed that among the private and public sector banks all the dimensions of service quality are equally important. But the scores in connection with service quality dimension for the public sector has been higher than the private sector. However, the intra comparison of the five dimensions in public and private sector leads to the contrast results with Responsiveness dimension has the highest value which is closely followed by Assurance and Reliability in case
of public sector banks and Empathy seems to have the least value among the dimensions. Rather in private sector banks, Tangibility has the highest value among the dimensions and Reliability has scored the minimum value, which certainly is a big factor contributing towards the lower quality perception of the private sector banks.

Lee et al (2011) investigated the relationships between service quality, Relationship quality, and Customer loyalty in Taiwanese internet banks and the result revealed that internet banks can enhance service quality by focusing on six dimensions: Competence, Offering information actively, Information delivery, Security, Crisis handling, and Relationship retention and can establish good relationships through enhancement of service quality. If a bank improves service quality, they can earn trust and satisfaction of online users which subsequently increasing customer loyalty.

Newman and Cowling (1996) attempted a comparative study with the application of the SERVQUAL in the two British banks by applying the instrument in the first banks and its subsequent quality improvement programme, and the implementation of an off-the-shelf Crosby total quality management training programme in the second bank and found that in the both banks hard quality service failures is identified strikingly by both SERVQUAL and Crosby’s diagnostic tool kit approach. Banks found themselves working hard to reduce error rates, reduce downtime and speed up process times.

Sheth et al (2000) highlighted the implications of customer-centric marketing as well as the boundary conditions that will affect its adoption and suggested that that marketing will gradually move toward customer-centric. The antecedents, consequences, as well as moderators of the growth of customer-centric marketing were explicated. However, there are several external or exogenous factors like public policy, corporate culture, industry
structure and scope economies may enhance or restrict the growth of customer-centric marketing in particular situations.

Cronin et al (2000) attempted to conceptualize the effects of Quality, Satisfaction, and Value on consumers’ behavioural intentions through an empirical assessment of a model of service encounters that simultaneously considers the direct effects of these variables on behavioural intentions and found that the indirect effects of the service quality and value constructs enhanced their impact on behavioural intentions.

Bell et al (2005) investigated the effects of customer investment expertise and perceived switching costs on the relationships between technical and functional service quality and customer loyalty. It was found that the main effect of technical service quality on customer loyalty was stronger than functional service quality and consistent high returns with the nature of the product category is the more important deciding factor for clients' intentions to stay than the friendliness and courteousness of service personnel. Higher perceived switching costs were expected to decrease the effect of both technical and functional service quality on clients' loyalty to the organization. However, switching costs would increase the importance of technical service quality on customer loyalty.

Kheng et al (2010) analyzed the impact of Service quality on Customer loyalty in the Banks of Penang, Malaysia using SERVQUAL and found that improvement in service quality enhances customer loyalty and factors like Reliability, Empathy and Assurance has played a significant role in Customer loyalty.

Siddiqi (2011) attempted to identify the most important drivers of customers loyalty in the retail banking setting and the interrelationship between Service Quality, Customer Satisfaction, Corporate Image, Customer
Value and Customer Loyalty and the result revealed that the service quality has positive correlation with customer loyalty but large positive correlation is with corporate image. The result also confirmed that customer value is the most important drivers of customer loyalty.