CHAPTER II

REVIEW OF LITERATURE

2:1 LITERATURE REVIEW

The review of literature pertaining to “Service Quality and Customer Satisfaction” is discussed with reference to the following empirical studies:

A study on ‘The customer satisfaction, is conducted mainly to determine the critical performance attributes that provides him satisfaction, to assess performance of the manufacturing supplier in comparison to its major competitors to establish priorities and to take corrective action accordingly. Such studies by companies aim not only to reveal the level or degree of customer satisfaction but also the underlying causes of satisfaction and dissatisfaction. In these studies, the attributes of performance commonly measured are; product-related attributes, service-related attributes and purchase-related attributes.

It is of paramount importance that, the results obtained through the customer satisfaction studies are utilized for the purpose of improving performance in relation to company’s past achievements and also in relation to the performance of the competitors, so as to establish the superiority of service performance.
‘Service quality’ is defined in many ways, but the authors are interested in choosing customer satisfaction as the definition of service quality because, in his paper, there is an attempt to measure customer satisfaction. Measuring customer satisfaction gives a strategic advantage in knowing where an organization stands in the market in terms of service quality. It provides an impetus to the organization to act and improve its position in the competitive environment.

Gronroos (1990), emphasized that the service sector has captured significant interest in the attempt to ‘identify factors that affect customer satisfaction’. The main contention is that a satisfied customer is more likely to be loyal and be a long term client of the service provider. Relationship marketing argues that for a firm to be profitable, it must be attentive to those factors that affect satisfaction. In the last decade, SERVQUAL, proposed by Parasuraman, Berry and Zeithaml has emerged as the ubiquitous approach for assessing the essential factor associated with service quality and satisfaction.


'SERVQUAL' has been tested and validated by Durvasula, Lyonski and Mehta (1999) the retail sector and recently it has been applied to the business-to-business setting firms in the industrial sector have become advocates for identifying those factors that affect the level of service satisfaction they render. In formulating their marketing strategy, many firms in this sector have given importance to factors such as caring, support, trust worthiness, giving help when needed, as they are considered necessary to enhance relationship with customers, thus leading to service satisfaction.

While no firm deliberately commits errors in a way that undermines service satisfaction, mistakes such as incorrect billing, delays in processing of complaints may happen from time to time. When such problems occur, the way a service provider deals with them can also have a major impact on satisfaction. For example, while a positive handling of the problem will lead to a sustaining relationship, an inadequate or improper handling of the problem could lead to acrimony, negative word of mouth and customer dissatisfaction.


Spreng, Harrel and Mackoy (1995) Tax and Brown (1998) and Durvasula, Ilonski and Mehta, their literature emphasized that service recovery methods are essential in maintaining customer loyalty and long-term commitments. One area that has not received sufficient focus is determining the sequence of factors that maximize customer satisfaction. They, proposed that to identify ‘various factor determinants that optimize service satisfaction in the business-to-business sector.’ Their study is based on a investigation of 221 shipping managers’ evaluation of ocean freight services in Singapore.

Patterson and Johnson (1993) suggests a review of services marketing literature that service quality and service satisfaction are two related (but not identical) constructs. The research in this area suggests that service satisfaction is affected by the interaction between the customer and the service provider. This interaction is known as service encounter. The overall service satisfaction depends on how the service provider manages and monitors the service encounter.


Bitner (1990) research revealed that a customer’s service quality perceptions are influenced by the behaviour of the person who interacts with and delivers the service to the customer. In fact, from the customer’s perspective, service quality cannot be separated from the service provider.

When dealing with an organization, a customer may interact with one or more of its employees, who work for different departments. These departments are considered interfacing departments, as they provide an interface between the customer and the organization. In such a case, a customer’s overall service satisfaction depends on how that customer evaluates the level of service rendered by the employees with whom the customer interacts and those interfacing departments. Given this background, a key question is to determine how an organization should maximize service satisfaction, specifically, which combination of interfacing departments’ perceptions lead to increased service satisfaction. These questions are addressed in his paper by analyzing customers’ overall service satisfaction and perceptions of service rendered by various interfacing departments, using ocean freight shipping as the case setting.

Clark and Fujimoto (1991) results show the difficulties in documenting the complete set of specifications of service products. What role do such specifications play upstream in the development process? While developing manufactured products, a set of clear specifications for the product or its components allows outsourcing of the manufacturing process. At the development stage, clear performance and engineering specifications for a product or component can allow outsourcing of its development, in addition to manufacture. Outsourcing of product development allows several development activities to be conducted in parallel, thereby reducing the total length of the development process.

Ulrich (1995) discusses architectural considerations for manufactured product: in modular architecture, the specifications for component interfaces are fixed, allowing individual components to be developed independently of one another.

Green and Krieger (1985) analyses that the marketing tools for new

product development include methods such as conjoint analysis which helps determining the degree to which customers care about different product attributes. Conjoint analysis has been used to design manufactured as well as service products.

Ramdas and Sawhney\textsuperscript{11} (1999) identify the difficulty in applying decomposition techniques such as conjoint analysis to manufactured products with high aesthetic content, such as wrist-watches: it is difficult to characterise complex aesthetic features along a few physical attributes, as it is required for conjoint analysis. The same holds true for the application of this technique to service products. They describe a method that can be used to predict market share for more 'aesthetic' manufacture products, which makes use of customer ready prototypes. This technique might be used for service products if a working prototype of potential new service products could be shown to test consumers through a web-based application-for example, if customers could 'walk through' several alternative hotel configurations. Schmalensee and Thisse\textsuperscript{12} (1986) described the Marketing tools such as perceptual mapping already in use for both manufactured and service products.


Gale\textsuperscript{13} (1992) and Coyne\textsuperscript{14} (1989) research on the use of expectancy disconfirmation-based measures of service quality (such as SERVQUAL) also suggests that there are links between high levels of satisfaction and repurchase behaviour and his research focusing on this aspect found, for instance, that service level thresholds determined repurchase loyalty, recommendation behaviour, etc.; that within thresholds, the behaviour was the same even if the levels of service changed. How threshold levels affect loyalty were explained in the frame work of the satisfaction theory, but there were differences in the explanation of the actual phenomenon. Still this implied that satisfaction mediated the service quality effect on retention (loyalty); and thus, profitability Zeithaml et al.\textsuperscript{15} (1996). In the same article, there is a focus on the mediatory processes which suggest that the favourableness of behavioral intentions mediate the service level effects on the loyalty/switching behaviour of clients. Boulding, Kalra, Staelin and Zeithaml\textsuperscript{16} (1993) found positive correlation between service quality and the willingness to recommend, repurchase, say positive things, etc.


\textsuperscript{15} Zeithaml, V.A.L. Berry and A. Parasuraman (1996) \textquote{The Behavioural Consequences of Service Quality}, Journal of Marketing, Vol.60 April, pp. 31-46.

and Parasuraman, Zeithaml and Berry\textsuperscript{17} (1998) found a significant relationship between customers perception of service quality and willingness to recommend the manufacturing supplier. The conflicting nature of the findings of such studies in explaining the linkage of service quality levels, satisfaction and the actual behavioural intention and behaviours of clients leads us to further examine the issue and studies of customer defections reveal that customers reporting high levels of satisfaction also defect.

Reichfeld\textsuperscript{18} (1996) suggests that service quality and satisfaction scores may not accurately indicate long-term behaviour patterns. A possible reason of this failure may be the presence of other explanatory variables.

Gronroos\textsuperscript{19} (1996) examined that the service quality movement paradigm may also be described as an effort for creation, maintenance (retention) and enhancement (or value addition) of relationship with customers. Such definitions of marketing tasks include the relationship context, in the long-term, the episode of exchange or transaction in one incident, which cumulatively affects the


evolution of client perception which leads to loyalty or otherwise. This long-term process of sequential, multiple transaction is viewed as a continuing, evolving relationship. Service quality and satisfaction need to be examined at the episodic and the relationship levels to study loyalty-related behaviour, like behavioural intentions. This examination of intentions in the long-term falls in the purview of existing relationship-marketing paradigms. Further, he relates the satisfaction of a customer (determined by service quality) with the strength of the relationship with the manufacturing supplier, and this leads to longevity of relationship (read loyalty) and relationship opportunities (type of relationship).

According to Fournier and Susan,\textsuperscript{20} (1998) Relationships are a multiplex phenomenon. The nature of relationship depends on the kinds of satisfaction desired by the parties involved. The clients may seek socio-emotional provisions and/or instrumental provisions, and may allow these concerns to determine their focus in the relationship. Thus, their behavioural intentions may depend on the provision criterion. The relations also depend on whether the type of bonds are substantively grounded or emotionally based. The pivotal assumptions here are that the series of transaction episodes when seen as

relationships are usually decomposed into manageable growth segments for the purposes of study and action. They are conceptually differentiated stages, like the five-phased model of initiation, growth, maintenance, deterioration and dissolution. This reflects the similarity in managerial approach to the loyalty issue in both the paradigms (including the assumption of a sequential movement from attraction to retention).

Liljander, V. and T. Strandvik\textsuperscript{22} (1995) viewed that the relationship theory also differs on the number of stages, and more important, on the processes assumed critical for development from one stage to another. These intervening variables that affect the progress from stage to stage may be assumed to be critical in eventually leading to loyalty. These intervening variables are factors like trust, intimacy, interdependence, commitment, bonding, etc and

Further, Storbacka, Strandvik and Gronroos\textsuperscript{22} (1995) defined Commitment, as the attitude towards interacting with each other, coupled with the bonds of various types, is a determinant of relationship strength. Relationship strength is closely related to loyalty, or behaviours which reflect

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loyalty like recommendations, repurchase intentions and actual repurchase, etc.

One of the most systematic research programmes in service quality was conducted by Parasuraman, Berry and Zeithaml developed a conceptual mode, which defines service quality from the customer's perspective and identifies key service provider gaps potentially responsible for poor service. One of the key assertions in service literature has been the advocacy for superior service quality as means to attract and retain customers and studies have shown that customer's perceptions of service quality are related to behavioural intentions and ultimately to purchase behaviour. On the contrary, not everyone appears to purchase the highest quality service (Olshavsky) (1985).

According to Rust, Roland T. and Richard L. Oliver (1994) customer satisfaction has been an area of key concern for marketers as it leads to repurchase intentions, easier acceptance of products in the product line, and also generates


favourable referrals through word of mouth communication. All these factors make customer satisfaction crucial for the success of a firm. In services literature, there has been a lot of debate on the distinction between the gap analysis model of service quality and the disconfirmation of expectations paradigm as used in customer satisfaction studies. But, now there is a broad consensus that service quality and satisfaction are unique constructs that share a close relationship.

Another area of contention has been developed by the casual ordering of the service quality-customer satisfaction relationship, in the formation of consumer's purchase intention. Taylor and Cronin26 (1992) (Parasuraman et al., 1994) suggested that explicitly stating a non-recursive relationship between service quality and satisfaction can resolve the direction of causality issue and the shared variance also results in a better prediction of behavioural intentions.

‘In Services marketing literature,’ ‘value’ has been considered as a trade-off between the customer’s assessment of the benefits of using a service and its costs. Bolton and Drew,27 (1991) on the basis of a review of literature and an exploratory study, suggested that the customer’s assessment of value depends on sacrifice, which includes both monetary and non-monetary costs and the

benefits received in terms of quality and satisfaction. The evaluation of value also depends on customer tastes and customer characteristics.

In an exhaustive study, which attempted to empirically test the conceptualization of service value, Bolton and Drew proposed a conceptual model wherein they asserted that customer's expectation, perceptions of current performance and disconfirmation experiences affect their satisfaction / dissatisfaction with a service, which in turn affects their assessment of service quality. They developed a multi-stage model of service quality and value which decomposed customer's assessment of a service into a series of inter-related stages. This study has taken into consideration the effect of the underlying components of service quality for assessing value, which is contrary to the earlier studies that had assumed that the evaluation of value depends directly on the consumer's assessment of service quality. The study found that service quality and value are not identical constructs and also that the customers weigh the components of service quality differently when assessing service value versus service quality. Bolton and Drew concluded that service value appears a richer, more comprehensive measure of a service than service quality'.

The Brown-Gibson 28 (1972) model was developed to find the best location

by evaluating both the subjective and objective factors. It is a quantitative model. Although the strategic decision involves subjective factors, the model gives a framework where even these are quantified along with the objective factors. In this model, both the subjective and the objective factors are converted into consistent and dimensionless indices. According to David Garvin\textsuperscript{29} (1984) and Paul E. Plerk\textsuperscript{30}, quality has eight dimensions:

- Performance
- Features
- Conformance
- Reliability
- Durability
- Serviceability
- Aesthetics &
- Response

Since quality is customer satisfaction and the customer satisfaction also has the same dimensions as quality.

The impact of service quality on the customers' behavioural response was studied by testing a hypothesis: 'Service quality has a positive linear relationship with customers' behavioural responses.' The customers' behavioural responses were measured in terms of variables such as word of mouth communication, repurchase, preference, manufacturing supplier image, and retention.

According to Yadav\(^1\), there are a number of reasons for the growth in the service sector, viz., (1) greater affluence (desire of life of quality), (ii) greater life expectancy, (iii) greater complexity of products (therefore, maintenance and upkeep services), (iv) increased complexity of life (therefore, financial and legal services), (v) increasing number of working women, and (vi) globalization.

According to Mathur Himendu\(^2\) (1999), customer satisfaction seems to be a mirage being chased by the average customer rather than a goal to be achieved by the bank employees.

Preethi's\(^3\) (2000) exploratory studies have been conducted to know the quality perceptions leading to the development of a service quality model. The

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benefits, as observed by the studies, are contributions to market share and return on investment. Also mentioned are aspects like lowering manufacturing costs and improving productivity. Overall discussions of service quality have churned out the following ideas: (i) It is much more difficult. For the customer to evaluate service quality vis-a-vis goods quality. (ii) Service quality perceptions result from a comparison of consumer expectations with actual service performance. (iii) Evaluation of quality is made on the outcome of a service as well as the process of service.

According to Preeti, who categorized services along certain key dimension, financial services come under the 'high contact service'. Service delivery is more personnel-based than in many other services. Literature points out that delivery of quality service is difficult, but at the same time profitable in the long run.

Rangarajan34 (1997) revealed that over the last three decades, a phenomenal increase has taken place in the size, spread and activities undertaken by banks in India. Bank branches have increased from approximately 8,000 in 1969 to over 45,000 now. With the entry of new banks, the competition for customers is intensifying. Against this background, the use of computers and allied

technologies by banks has become inevitable to achieve satisfactory levels of customer service. Computers are best suited to a situation in which large volumes of transactions have to be processed within a short period of time. Banking as a service industry exactly fits into this description.

Sanjay Nagi and Alok Gaur

Sanjay Nagi and Alok Gaur (1999) Noida-based consultants who run a consulting firm called GN Consulting, have developed a model a measure customer satisfaction as an index of Quality, which could pin-point areas needing improvement in service quality. In there, they articulate the need for, and advantages of, listening objectively to the Voice of the Customer.

Sachdeva

Sachdeva (1990) has analysed the factors leading to dissatisfaction of customers and made suggestions for improvement.

Narayana and Brahmanandam

Narayana and Brahmanandam (1989) studied customer service in commercial banks by analyzing physical facilities, account operations, cheque operations draft operations, money transfer, complaints and suggestions,

35. Sanjay Nagi and Alok Gaur (1999) 'The voice of the computer - The starting point of quality', Indian Management, Jan-Feb., pp.3-40


perception on staff behaviour and image of the bank.

The findings of Reddy and Rao (1990) covered the aspects of opening an account, depositing cash, withdrawing cash pass book entries and updating, standing instructions, cheque book operations, collections of cheques, en-cashing demand draft, remittance of cheques, travels cheques etc.

Praveen Agarwal (1999) studied the extent to which facilities provided by private sector banks have resulted in increased customer satisfaction level and suggested improvements in the existing facilities or new facilities that will increase the customer satisfaction level.

Krishna Kumar Sree (1993) has made an attempt to ascertain the level of satisfaction amongst the customers of the General Insurance Industry would largely reflect satisfaction in compulsion rather than satisfaction derived by the customers in satisfying their inherent needs. The results indicate that the customer of the General Insurance Industry did not possess adequate knowledge of the services he had purchased. The General Insurance Industry needs to

38. Reddy and Rao (1990), conducted a study at Guntur town (A.P.)
40. Krishna Kumar Sree (1993), 'Achieving Satisfaction,' Journal of Insurance Institute of India, Jan-June, pp. 7 - 16.
gear up its machinery to see that the insuring public get to know more about the benefits offered by its coverages, so as to make the customer appreciate them, and consequently derive satisfaction and his analysis concluded that the customer satisfaction is the key to business success and who else is the best judge of what satisfies the customer than the customer himself. Taking Banking Industry as an instance the case study attempts to relate the business to the responsiveness of the customers to ten different popular dimensions. Therefore it is concluded that there is no relationship between the period of association of banking with a bank and the criteria used by its customers in evaluating its service.

Nageswar Rao⁴¹ (1987) discusses the customers' services being offered by the nationalised banks in the country. He says along with the increase in the number of banks the quality of customer services should also improve. He points out shortcomings in this regard and makes some concrete suggestions for streamlining and improving the customer services.

Appi Reddy and Dr. G. Narasimha Murthy⁴² (1996) made an attempt to examine and evaluate the customer services provided by LIC at a branch level

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from the view point of customers. For the purpose of study, Hanamkunda branch (Andhra Pradesh) is selected. In order to collect opinions of the policyholders, a structured questionnaire is administered on the sample policy holders.

Brahmanandam G.N. and M.S. Narayana⁴³ (1990) made an attempt to study the customer services in commercial banks. Efforts are also made to find out the problems of bank customers in transacting with bank branches and to measure the extent of customer satisfaction with the service of banks and thereby they gave some suggestions to improve the service in banks.

Puttaswamaiah, K⁴⁴ (1996) reviewed and evaluated the performance of Canara Bank in general and the customers service in particular and identified and developed a set of indicators or parameters to review and rate the Branches/Divisions/Circles of the Bank in their service to customers. On going through the recommendations, it was found that the Canara Bank was a pioneer in effectively implementing some of the new concepts suggested by the committee much earlier. It took effective steps to implement the recommendations of the Goiporia Committee also in a fair manner.

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⁴³ Brahmanandam G.N. and Narayana M.S. (1990), ‘A study on customer service in commercial Banks’; Indian Journal of Marketing; January; pp 7-16

Bhaskara. B.G., Narasimha Rao T.V. and N.S. Viswanath\textsuperscript{45} (2000) emphasized to assess or evaluate the (or) needs of customers and the response of the process or the system, to the customer needs services.

Harmeek K. Soch and H.S. Sandhu\textsuperscript{46} (2000) carried out a study with the objectives of examining customer perception of different private banks operating in Chandigarh city and gave suggestions for improving the level of customer satisfaction.

2.2 Banking Commission (1972)

The first systematic attempt to study in-depth the banking system as a whole and make recommendations was made by the "Banking Commission"\textsuperscript{47} constituted by the Government of India, which submitted its report in 1972. This Commission has made use of the Technical Studies prepared for this banking commission by the Reserve Bank of India Published in two volumes in 1972. A few working groups were also constituted to study the various aspects of the banking system which has covered the re-organisation of the bank system including modernization and banking costs and many other aspects including


The Rangarajan Committee Report on Bank Computerization (1983-84) is the first print for computerization and mechanization in the Banking Industry. The committee has looked into the modalities of drawing up a phased plan of machization in Banking Industry covering the period 1985-90. As an extension of this report, in 1988, committee was constituted under the Chairmanship of Rangarajan again to examine the progress made on the earlier recommendations and give a plan of action for the future. This Committee, interlaid, not only reviewed the progress on the recommendations of the earlier committee, but also examined even guidance and suggestions for a perspective plan of action to computerizing bank branches. In his context, for branch level computerization, it has suggested three alternatives for action.

These are:

a. Each of the selected branches can have a super micro, mini or super-mini, with required on-line terminals. This should be linked to banker’s data com lines and connectivity provided.

b. Each of the selected branches may have PCs operating under LAN, with mini computer as server, Branches will be connected with each other and the nodal point of RBI, THROUGH banknet; and
c. **On-line terminals or PCs at the counter and back office at each branch could be hooked to one central system for that Bank.**

The alternative (a) has been recommended by the Committee as the most reliable. The other recommendations made are introduction of ATMs and introduction of bank credit cards. The computer training is also suggested. The report of Rangarajan (1993 and 1989) have also played important role in providing better service to the customer. The other important committees are Rangarajan Committee on Public Sector Enterprises Disinvestments (PSE Disinvestments), July 1993, Rangarajan committee Report on Balance of Payments - (BOP), June 1993, and Chelliah Committee Report on Corporate and other Tax Reforms, August 1992. While the report of the Rangarajan Committee on Public Sector Enterprises disinvestments (July 1993) have identified the criteria for selection of PSEs for disinvestments and given the limits on the percentage of equity disinvestments and explains the Modus-operandi of it, the Chelliah Committee has gone into the Tax Reforms which have indirect bearing on customer service. The retention of the general rate of depreciation on plant and machinery is relevant for the industrial branches of the bank. There are similar such recommendations by this committee which has to be noted.
2:3 INFERENCE FROM THE REVIEW

It could be seen clearly from the above analysis of Review of Literature that all the empirical work and reports, the explanatory variables such as Service Quality Attributes which includes Speed and efficiency, Attitude, responsiveness and courtesy, Professional commitment, punctuality and presence, Job knowledge, skill and accuracy, Procedures, Customer complaints and grievance, Infrastructure, location and layout, Variety of services, Technology and Cost and competitive efficiency, New banking facilities Attributes which includes Customers using home banking facility, Use of tele-banking facility, Awareness of ATM facility, Using ATM facility and Willing to use ATM facility and Service Quality factors which includes Infrastructure facilities, Opening of Accounts, Staff behaviour, Image of bank, Money transfer operation, Time norms, Innovative banking, Operation of various schemes, Promptness of Service, Guidance and counseling of customers, Safety measures, Computerization, Variety of services, Complaint and suggestions, and FOREX operations have positive effect on the variation of level of Satisfaction of Customers. As against this problem faced by the Customers which includes Arrangement for enquiry counter, Exchange on drafts and collection of cheques, Execution of standing instructions, Update of new products / services, Statement
of accounts, Hidden cost, Malfunctioning of ATM, Delayed transactions, Inadequate safety lockers, Non resident external accounts have negative effect with a widely varying Level of Satisfaction.

The techniques adopted in these studies are factor analysis, stepwise log linear model, mean, scoring techniques and $X^2$ test. And they explain the nature and Degree of relationship between Customer Satisfaction and explanatory variables.

In most of the above empirical studies, there is no evidence that regression approach is free from the econometric interpretation such as multicollinearity and homoscedasticity which normally affect the results in the primary data used by these studies.

The reasons for application of various techniques of statistical measures are due to differences in the period, size of sample and selection of the study unit. It is quite interesting to note that all the analysed empirical studies explained the Customer Satisfaction and their relationship of explanatory variables with respect to only large metropolitan western cities. In India majority of the empirical studies have been conducted in the direction of Banking Services and Banking performances, Satisfaction of Customers and only a few minor
studies have been conducted on evaluation of Service Quality and Customer Satisfaction.

By keeping the content and meaning of the analysed review of literature in mind, it is observed that there is no systematic study on Quality Services and Satisfaction of Customers in Private and Public Sector Banks pertaining to Chennai region of Tamil Nadu. This is the gap identified by the researcher. In order to fulfill the gap, the present study is being undertaken.