SERVICE QUALITY - THEORETICAL OVERVIEW

Chapter IV

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41. Introduction

Service sector has made an instrument of social changes in our country. The forces of deregulation, globalisation and advancing technology have greatly increased the competitive pressures in all the industries especially in the banking industry. The Indian banking industry too is going through turbulent times. Indian banks are functioning increasingly under competitive pressures emanating from within the banking system, from non-banking institutions as well as domestic and international capital markets. Thus in this area of increased competition, in order to prosper, it will be imperative for the banks to develop long-term relationships with the customer by offering quality service.

Developing long-term relations with customer or capturing customer lifetime value depends basically on three dimensions.

- Product quality
- Relationship quality, and
- Service quality
In this chapter an attempt is made to explain the above mentioned dimensions by giving a special emphasis on the concept – service quality.

4.2. Product quality

The ‘product’, here in banking services, means or includes services provided by banks. Banks offers a variety of services or products to their customers. In a highly competitive market the quality of product is important, because, it has a direct link to the customer satisfaction. Customer satisfaction is mandatory for building a long-term relationship with them.

A product is said to be high quality when it satisfied a particular need of the customer effectively and efficiently than its competitor can provide. The quality of a product determines the features of product and expectations of targeted group of customers. If the product has the ability to rise to the level equal to the level of expectation, that product can be called a ‘quality product’. So, in order to improve or maintain quality of product, while designing a product or service, service providers need to take a holistic view of the entire performance they want customers to experience. The design of service included three stages viz., design of core product, design of supplementary services and design of service procedures or features.

The core product supplies the central problem- solving benefits that customer seek from that product. The function of supplementary service is to facilitate core product’s use and enhancing its value and appeal. It also plays a
role in differentiating and positioning the core product. The third component deals with the procedures used to deliver both the core product and the supplementary services.

Hence, in order to increase the quality of product or service integration of the above mentioned three components at an optimum level is needed. The level will be changed with the change in the nature of product, needs and wants of targeted customers etc. Also, the targeted market should be homogeneous in nature, so that they can reduce the conflicts between customers.

Another way to increase service or product quality is that, set or design standards with sufficient high to satisfy or even delight customers, on the basis of the customer expectations learnt through both formal research and on-the-job experiences. These standards may include time parameters, the script for a technically correct performance and prescriptions for appropriate style and demeanor.

4.3. Relationship quality

The second dimension in the task of capturing customer lifetime value is the quality in the relationship between customer and the service provider. The task of creating long term customer relationship starts by identifying and targeting the right customers. Customers differ widely in terms of needs and the value they can contribute to a service provider. So matching customer to
the firm’s capabilities is vital. Besides, they need to consider the competence of their personnel, both personal style and technical, in meeting the expectations of customers.

Relationship marketing is another way to increase and maintain relationship quality of a service provider. It means building and maintaining long-term satisfying relations with both internal and external customers. The internal customers are employees or other personals or units who took part a role in delivery of products or services. The external customers are people who buy or use these products or services.

According to Kotler, Philip et al. “Customer relationship management is the over all process of building and maintaining profitable customer relationship by delivering superior customer value and satisfaction”. It deals with all aspects of acquiring, keeping and growing customers.

Delivering superior customer value and satisfaction can increase the relationship quality. Customer value means perceived value or utility customer expects from a product or service choice. The customer satisfaction is the extent to which a product’s perceived performance matches a buyer’s expectation. If the performance of the product falls short of expectations, the customer is dissatisfied. If performance exceeds expectations, the customer is highly satisfied or delighted. The service provider can increase the relationship quality by building relationship levels depending on the nature of the target market. The different levels are.
Basic relationship – It is the one extreme point of relationship with customer. It is suitable when the firm seek to develop relationship with many low-margin customer through advertisement or sale promotion activities.

Full relationship – It is another extreme point of relationship between service provider and customer. It can be practiced in those situations when there are a few customers and high margins. In other words it is the task of building relation with key customers to satisfy their requirements fully.

In between these two extremes, firms can practice any number of appropriate customer relationship levels such as, club marketing programs, frequency marketing programs etc.

4.4. Service quality

The term ‘Service Quality’ is an association of two different words; ‘service’ and ‘quality’. Service means “any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything.”

Quality has come to be recognized as a strategic tool for attaining operational efficiency and better performance of business.
‘Service quality’ means the ability of a service provider to satisfy customer in an efficient manner through which he can better the performance of business.

In the service sector too ‘quality’ is an important element for the success of business. It is because of the realization of its positive link with profits, increased market share, customer satisfaction. Several earlier studies and authors pointed out that quality concept in service is different from the concept prevalent in the goods sector. The reasons for such a treatment are inherent features of services like intangibility, inseparability from the provider, heterogeneous etc. Hence there is a distinct framework for quality explication and measurement.

4.5. Definitions of Service quality

The term ‘Service quality’ is harder to define and judge. Number of authors tried to define it and give definitions in different points of view.

Philip Kotler and Gary Armstrong defined the term ‘service quality’ as “it is the ability of a service firm to hang on to its customers”.2 That is, in their opinion customer retention is the best measure of service quality.

Christian Gronroos suggested that the quality of service as perceived by the customer has two dimensions – technical or outcome dimension and the function of process related dimension.3
A. Parasuraman, Valarie A.Zeithaml and L. Berry defined service quality as "the delivery of excellent or superior service relative to customer expectation." They conducted extensive research into service quality and identified ten criteria in evaluating service quality. Later, they reduced it into five broad dimensions viz.,

1. Reliability
2. Responsiveness.
3. Assurance
4. Empathy
5. Tangibility

So, from the above discussions it is clear that the service quality is a difficult concept to define in a single definition. This concept seems to refer several different areas, namely, quality of the output, quality of the process, quality of the delivery system and quality as a general philosophy of the organization.

4.6. Dimensions of service quality

The above definitions reveals one fact that, the concept 'service quality' is not an independent term, means, its formation depends upon several factors related to service and service firms. These factors are grouped
into five broad dimensions such as, reliability, responsiveness, assurance, empathy and tangibility. Each one is discussed below.\(^5\)

4.6.i. Reliability

Reliability is defined as the ability to perform the promised service dependably and accurately. In broad sense reliability means, service firms’ promises about delivery, service provisions, problem resolutions and pricing. Customers like to do business with those firms, who keep their promises. So it is an important element in the service quality perception by the customer and his loyalty. Hence the service firms need to be aware of customer expectation of reliability. In the case of banking services, the reliability dimension includes – regularity, attitude towards complaints, keep customers informed, consistency, procedures etc.

4.6.ii. Responsiveness

Responsiveness is the willingness to help customers and to provide prompt service. This dimension focuses in the attitude and promptness in dealing with customer requests, questions, complaints and problems. It also focuses on punctuality, presence, professional commitment etc., of the employees or staff. It can be calculated on the length of time customers wait for assistance, answers to questions etc. The conditions of responsiveness can be improved by continuously view the process of service delivery and employees attitude towards requests of customers.
4.6.iii. Assurance

The third dimension of service quality is the Assurance dimension. It can be defined as employee’s knowledge, courtesy and the ability of the firm and its employees to inspire trust and confidence in their customers. This dimension is important in banking, insurance services because customers feel uncertain about their ability to evaluate outcome. In some situations like insurance, stock broking services firms try to build trust and loyalty between key contact persons like insurance agents, brokers etc and individual customers. In banking services “personal banker” plays the role of key contact person. This dimension focuses on job knowledge and skill, accuracy, courtesy etc of employees and security ensured by the firm.

4.6.iv. Empathy

Another dimension of service quality is the Empathy dimension. It is defined as the caring, individualized attention provides to the customers by their banks or service firms. This dimension try to convey the meaning through personalized or individualized services that customers are unique and special to the firm. The focus of this dimension is on variety of services that satisfies different needs of customers, individualized or personalized services etc. In this case the service providers need to know customers personal needs or wants and preferences.
4.6.v. Tangibility

The fifth dimension of service quality is the Tangibility which is defined as the appearance of physical facilities, equipments, communication materials and technology. All these provide enough hints to customers about the quality of service of the firm. Also, this dimension enhances the image of the firm. Hence tangibility dimension is very important to firms and they need to invest heavily in arranging physical facilities.

4.7. Service quality based on expectations and perceptions of service.

Service quality or perceived service quality can be judged by comparing customer expectations of service and their perceptions of service.

4.7.i. Customer expectation

Customer expectations are beliefs about service delivery that is used as a base or bench mark against which the performance of the service is judged. Customers have different types of expectations about service. These expectations can be grouped into two as, desired service and adequate service. The desired service means the level of service the customer hopes to receive or wishes to receive from a company. Adequate service is the level of expectation when the customer recognizes that his hope to achieve desired service is not possible. Hence adequate service stands lower to desired
service. The difference between these two is the zone of tolerance of a customer, which is represented in figure 4.1.

**Figure 4.1**

**Expectation level of customer**

![Diagram of expectation level of customer]


The expectation of customer may influence the factors like,

- Personal needs of customer
- External communication of the service provider
- Personal and non personal statements made by others to the customer, that is, word of mouth.
- Past experience of customer.
4.7.ii. Customer perception

Customer perceptions are judgments about the actual service performance or delivery by a company. This perceived value is the overall assessment of the organization by the customer and these are subjective. It is because the determinants of perception of service quality will be affected or felt differently to each customers. The determinants or factors of customer perception are,

1. **Service encounters** – Service encounters occurs when the customer interacts with the service firm. When the customer has had multiple interactions with a firm, each individual encounter is important in creating a composite image of the firm in the customer’s memory. The positive experiences add up to a composite image of the high quality and negative experience or interactions create low quality. There are three types of service encounters such as, remote encounters (eg. ATM system of banks), phone encounters and face-to-face encounters.

2. **The evidence of service** – Another factor that influence customer perception of service quality is the evidence of service. It is important because, services are intangibles and hence customers search for evidence of service in every interactions. The evidence as experienced by the customer are – people, process and physical evidence. These elements are
present in every encounters and are important in managing the quality of service.

3. **Reputation or image** - The reputation or image about service provider in the mind of customer influence his service quality perceptions. These images are built up in the customer’s mind through advertisement, public relations, word of mouth etc.

4. **Price** – The price of the service also affects the perceptions of customers about the quality. If the price is high customers expect high quality and their perception will be influenced by this expectation.

5. **Perceived value** - The customers will evaluate the quality of service on the basis of their perceived value. The value is the customer’s overall assessment of the utility of a product based on perceptions of what he received and what he gave. It is the relation between the benefits received and cost of service.

4.7. iii. **Perceived Service Quality**

Since the expectations and perceptions or experience of services are different to customers, their perceived quality is also different. Perceived value of service quality is the difference between expectation of service and perception of service. The customers feel quality surprise when their perception exceeds expectation and they feel un acceptable quality when
their perception of service not met their expectations. If their perception is just enough to meet their expectation, it is the state of satisfactory quality. The figure 4.2. given below explains the relation between dimensions of service quality and customer perception of service quality.

**Figure 4.2.**

Relation of Service quality dimensions to service quality perception

**Dimensions of service quality**
1. Reliability
2. Responsiveness
3. Assurance
4. Empathy
5. Tangibility

**Perceived service quality**
1. Quality surprise
2. Satisfactory quality
3. Unacceptable quality

4.8. Measurement of Service quality

In the case of tangible goods, quality can be assessed by examining the goods. Quality control can be used to check specifications and reject defective goods. But service quality cannot be assessed in the same way as a tangible product due to particular feature of service such as, intangibility, in separability etc.

As in the case of goods, the service provider cannot undertake quality check before the service is finally delivered to the customer. In order to assess the service quality the customer judges the expected service quality against the perceived quality when they receive it. There are mainly two methods for measuring service quality viz.,

- Gap analysis
- Service performance measures

4.8.i. Gap analysis

Gap analysis model of service quality was developed by Parasuraman, A. et al. in the year 1985. The model indicated that customer perception of quality was influenced by a series of five distinct gaps. They are mentioned below.

*Gap - 1* - Gap between customer expectation and Management perception.
The reasons for this gap are lack of adequate market research and lack of upward communication. This gap can be narrowed by adopting adequate research programs to know customer needs and to improve the communication system. It can be measured by using the SERVQUAL scale and comparing the scores obtained from the management and customers.

**Gap – 2 – Gap between Management perception and service quality specification.**

This gap exists in service firms because of the lack of whole hearted commitment of management to service quality, inadequate service leadership etc. It can be closed by standardizing service delivery process and setting proper organizational goals.

**Gap – 3 – Gap between Service quality specification and service delivery.**

The third gap originates from the discrepancies in the actual service delivery, that is, the service providers or employees do not perform at the level expected by the management. It is because of the ineffective recruitment, lack of proper incentives and motivations etc. This gap can be eliminated by providing the employees with adequate support system, better human resource management system etc.
**Gap – 4** – Gap between Service delivery and external communication.

The gap between service delivery and external communication occurs due to exaggerated promise or ineffective communication to the customer, which raise customer expectations. This can be narrowed by efficient and effective communication system.

**Gap – 5** – Gap between expected quality and perceived quality.

This gap exists because of the inequality in the service expectation of customer and his service perception. This can be overcome by identifying, quantifying and monitoring customer expectations and perceptions through the effective use of marketing and marketing research tools.

A pictorial presentation of these five gaps are depicted in figure 4.3.
Figure 4.3
Gap analysis model of service quality

Consumer

- Word of mouth
- Personal needs
- Past experience
- Expected service

Gap 5

Perceived service

Gap 4

Service delivery (including pre and post contacts)

Gap 3

Transition of perceptions into service quality specifications

Gap 2

Management perceptions of consumer expectations

Gap 1

Marketer

External communications to consumer

Source: ibid, p44.
4.8..ii. Service performance measures

An alternative to using gap theory methodology for measuring service quality is the service performance measures. The two types of performance measures can be used under this method. One is, Soft measures of service quality and other one is, Hard measures of service quality. These are explained below.

4.8.ii.a. Soft measures of service quality

Soft measures are those that cannot easily be observed and must be collected by talking to customers, employees or others. Under this method the banks can measure quality in the following ways-

1. **Customer satisfaction surveys** – Under this method individual customers or corporate customer may be asked to rate their specific and overall impression of service delivery. For this a questionnaire or interview schedule can be used. Besides this, focus group interviews and other market research techniques can be utilized for this purpose.

2. **Internal performance analysis** – In this method employee surveys are conducted to determine perception of the quality of service delivered to customers on specific dimensions. Also, feed back from quality circles, performance evaluation reports, customer retention levels etc., provide information to monitor quality of services.
4.8.ii.b. Hard measures of service quality

This method includes those characteristics and activities that can be counted, timed or measured through audits. Such measures may include waiting time for the pass book to be updated by a bank, time taken to issue a demand draft, delay in clearing and crediting a cheque deposited by the customer etc.

4.9. Conclusion

In the increasing competitive market, especially banking services market, the focus on service quality is essential to service firms for their survival and success. The management of service quality helps the management to maintain consistency in service delivery and to meet changing customer expectations more efficiently and effectively. Also, it provides some benefits to firms such as, service differentiation from competitors, better image, higher profitability, increased customer satisfaction, increase customer retention and loyalty, staff morale, productivity etc. Hence measurement of service quality is an inevitable task to the service firms, especially banking service companies.
REFERENCES


4. Ibid., p. 118