Chapter I

Introduction

There is no mistaking the fact that onset of liberalization (globalization) of economy set
rolling a process of relook at the entire spectrum of marketing of services. Given a free
field to operate, the industry (both products and service oriented) in order to gear up to
the new challenge, had to upgrade the quality of the product and rewrite the whole
concept of service to the satisfaction of the customers. The new approach signaled a
paradigmatic shift from the conventional and pedestrian to a proactive, dynamic and
delighting method of marketing.

Different studies on marketing unarguably concur with the view that fostering a vibrant
and promising image of the industry (both product and service) is an imperative for its
success. Osuagwu (1999) defines marketing as a function by which a marketer plans,
promotes and delivers goods and services to the customers. Marketing is one of the
salient and important organic functions, which help service organizations to meet their
business challenges, and achieve set goals and objectives (Kotler and Connor, 1977). It
is an activity, set of institutions, and processes for creating, communicating, delivering,
and exchanging offerings that have value for customers, clients, partners, and society at
large (Lotti and Lehmann, 2007). It may be defined as those business functions, which
are most directly and primarily, concerned with three activities i.e. the recognition of
the demand (or potential demand), the stimulation of the demand (through promotion
and selling) and the satisfaction of the demand (largely by the product itself and the
means of distribution which make it available) (Mamoria et al., 2003, p 7). The
American Marketing Association defines “marketing as a process of planning and
executing the conceptions, pricing, promotion and distribution of ideas, goods and
services”.

Marketing activities now-a-days are performed persuasively for products as well as for
services. Services constitute a very significant portion of the business market, and not
the kind of benevolence of the bygone times. Services marketing refers to the marketing
of activities and processes (health care, entertainment, air travel) rather than objects (soap, powder, cars). The entire field of services marketing, which has emerged as a sub field of marketing in recent years, has been based on the promise that services marketing possess certain distinctive and distinguishing features, which in turn justifies the treatment of services marketing as different from goods marketing (Rao and Singhapakdi, 1977). To discern the differences between services and physical products, Booms and Bitner (1981) suggested including three additional factors such as people, physical evidence, and process as marketing mix elements to the traditional four Ps (i.e. product, price, place, and promotion) for services marketing. Further, Gronroos (1984) argued that, services marketing require not only the external marketing using the four Ps, but also internal and interactive marketing. The external marketing describes the normal work done by the company to frame, fix price, distribute and promote the services to customers. The internal marketing describes the work done by the company, to recruit, train and motivate employees to serve customers satisfactorily. The interactive marketing describes the employees’ skill of serving the clients. The client judges the service quality not only by its technical quality but also by its functional quality. Thus, the service marketers have to master interactive marketing skill along with providing good technical service in order to satisfy the customers. In the present scenario of economic liberalization, success of service organization could be insured by effectively implementing these three concepts of services marketing. Goods and services differ in form but the irrespectively activities aim at gain (Mamoria et al., 2003, p 262).

In a competitive age, marketing plays a crucial role in the service sector for providing quality products and services for the satisfaction of customers whether service or product oriented. Marketing thought, with its practice, has been moving speedily into the service industry (Kotler and Connor, 1977). The development of services marketing has been likened to human evolution (Fisk et al., 1993). It has been generally attributed to the mature development of an economy and the rising standard of living of the people. So, there is an acceptance of marketing concept in the service industries (Mamoria et al., 2003, p 262). With services, service sector accounting for more than
two third of the total economic activity in developed countries and close to half of the economic activity of many developing countries, services marketing has been gaining ever-increasing importance in recent years (Rao and Singhapakdi, 1977).

1.1 The Service Critique

1.1.1 Concept of Services

The concept of service is an ever evolving notion of human attitude (thinking, acting and doing things) from physical to virtual, from the individual to network, from local to global, from manufacturing to services. The word service has been used to devote an organization or industry that “does something” for someone, and doesn’t “make something” for someone (Silvestro and Johnston, 1990). Service also denotes companies or firms that meet the needs and wants of society, and these organizations are substantially bureaucratic in nature (Johns, 1999). Clark (1940) was the first person who foresaw the importance of services in the economies of the future. The author classified economics transaction, beginning from a pre-industrial society to the industrial and finally to the post-industrial society into three sectors: primary (agricultural), secondary (manufacturing), and tertiary (services). The author further divided the service sector into three parts consisting of quasi-domestic services (food and lodging), whether performed in the home or not; business services; and a group of others including recreation, health care and education, in which the central purpose is to involve and improve the customers.

The American Marketing Association defines services as “activities, benefits and satisfaction, which are offered for sale and are provided in connection with the sale of goods”. When a customer buys a service in the service market, he buys the time, knowledge, skill and resources of someone else who is the provider or supplier of a service. The buyer receives satisfaction and benefits from the activities of the provider who may be an individual, a firm or a company, i.e., an institution specializing in selling certain benefits and satisfaction (Sherlekar, 1988; Regan, 1963). Gemmel et al. (2003) consider both internal (management and employees) and external (customers) matters by pointing out that the service concept becomes a blueprint that communicates to employees what service they should give and to customers what service they should
expect to receive. Thus, it is reasonable to state that within the insurance sector, which is strongly characterized by complexity of products, the importance of a clear and well defined service concept should be emphasized (Ahonen, 2004). Again, Gummesson (1993) argues that customers don’t buy goods or services; they buy offerings, which render services and create value. Many researchers and experts (e.g. Lehtinen and Lehtinen 1982; Kotler, 1988) have attempted to define service but no ultimate definition has been established.

1.1.1.1 Characteristics of “Service”
The concept of services is, however, so nuanced that it is hard to construct a simple definition. Services in general possess four predominant characteristics viz., intangibility, inseparability, heterogeneity, and perishability, which make planning a service marketing strategy quite challenging (Mohanty and Sahu, 2004; Kotler, 1994; Rust et al., 1996). These characteristics indicate the significant interactive qualities of services in the service encounters, which mean that services are produced, distributed and consumed in the interaction between the service provider and service receiver. These characteristics were first discussed in the early services marketing literature by Regan (1963); Rathmell (1966); Shostack (1977); and Zeithaml et al. (1985). These characteristics underpinned the case for services marketing and made services a field of marketing that was distinct from the marketing of products.

The different characteristics of services are as follows:

- **Intangibility in Services**
According to Levitt (1981) the degree of intangibility has been proposed as a means of distinguishing between products and services. Services are intangible which cannot be seen, touched, held, or stored (Zeithaml et al., 1990). Intangibility makes a service significantly different from product. The benefit of service cannot be experienced until the service is provided and simultaneously consumed. This intangible feature represents a considerable amount of uncertainty and risk for many customers (Zeithaml et al., 1985). Bateson (1977) explained that there are two distinct characteristics of services viz., “palpable” intangibility, i.e., they cannot be touched; and “mental” intangibility, i.e., it is hard to anticipate exactly the outcome of a particular service. Bateson (1979)
argued that intangibility is the precise goods-services differentiation on which all other differences are based. Products are tangible objects that exist in both time and space, while services consist of social acts or interactions and exist in time only (Berry, 1980). Shostack (1981) maintained that services couldn’t be possessed, they can only be experienced, created or participated in.

- **Inseparability of Services**
  It enables consumers to affect or shape the performance and quality of the services (Gronroos, 1978; Zeithmal, 1981). Goods are first produced, inventoried, sold and then consumed whereas the services are usually sold first, produced and then consumed simultaneously, because they cannot be inventoried (Regan, 1963; Berry, 1980; Maister, 1983). Moreover, as Mills et al. (1986) noted, there is an interdependent influence intrinsic in the direct face to face interaction between the customer and service provider (e.g. Friedlander and Pickle, 1968; Schneider et al., 1980). Production and consumption of many services are inseparable (Zeithaml et al., 1990). Thus, inseparability is an important feature of services, which creates challenges to the service marketers. Both suppliers of the services and the customers should have rapport, willingly understand each other and co-operate through meaningful dialogues and effective communication.

- **Heterogeneity of Services**
  The heterogeneity of services reflects the potential for high variability in service delivery (Zeithaml et al., 1985). This is a particular problem for services with a high labour content, as the service performance is delivered by different people and the performance of people can vary from day to day (Rathmell, 1966; Zeithaml et al., 1985; Onkvisit and Shaw, 1991). The relative inability to standardize the output of services in comparison to goods means quality of services varies with the individual provider. The quality of service may vary slightly or significantly from one provider to another or from one customer to another customer or from one time period to another even within the same selling organization. Service buyers are aware of this high variability and frequently talk to others before selecting a service provider. This heterogeneity along with intangibility feature often forces the customer to dwell on dissatisfaction rather than satisfaction from the consumption of the service (Zeithaml et al., 1985).
Introduction

- **Perishability of Services**

  In general, services cannot be stored and carried forward to a future time period (Rathmell, 1966; Zeithaml *et al.*, 1985). Since they are performances and experiences rather than objects, it is difficult to establish precise manufacturing specifications regarding uniform quality. In most cases, services cannot be inventoried, counted, or transported (Lovelock, 1981; Shostack, 1977). As services are performances that cannot be sampled in advance. This results in difficulties for service organization in matching demand with capacity. For example sometimes too much demand exists (for a popular restaurant on a Saturday night) and sometimes too little demand exists (for an income tax service in summer) (Zeithaml *et al.*, 1985). The solution here is to better train service providers to better understand and empathize with the customer’s peak needs and to provide for a careful assessment of customer needs through research.

  In nutshell, above mentioned services’ attributes result in a major problem in differentiating one’s service from another provider. These characteristics are often said to represent the disadvantages of services in relation to goods and therefore imply normative implications for services marketing managers (Zeithaml *et al.*, 1985). As a result of the characteristics of services, the principles and practices of product quality control cannot be used for assessing service quality (Hyung-Jin Lee, 2006).

1.1.2 Conceptual Approach to Service Quality

Service quality is one of the sub-areas within the services marketing literature (Fisk *et al.*, 1993). Quality is one of the competitive priorities which have migrated from the literature of manufacturing strategy to the service arena (Pariseau and McDaniel, 1997). The worldwide quality movement that has swept the manufacturing sector over the last decade is beginning to take shape in the service sector (Business Week, 1991; Crosby, 1991).

Quality was introduced in many fields of industry as an element designed to effect competitive advantage (Berry *et al.*, 1988; Berry and Parasuraman, 1991; Peters and Waterman, 1982). Quality is thus conceived as a peripheral value-adding component of a service (Parasuraman *et al.*, 1991b). However, the position of quality, from a
customer’s point of view, has moved from a value adding perspective to that of an uncompromisable component of the service promise (Kandampully, 1996). In marketing and economics, quality often has been viewed as dependent on the level of product attributes (e.g., Hauser and Shugan, 1983; Rosen, 1974). According to Oakland (2000), quality is a way of managing business processes to ensure complete consumer satisfaction at every stage, internally and externally.

In the services literature, the construct of quality is conceptualized based on perceived service quality (Hishamuddin et al., 2008). Parasuraman et al. (1988) defined perceived service quality as global judgment, or attitude, relating to the superiority of the service. Service quality is defined as ‘what customers perceive as quality that is important, not what designers or operation managers believe is good or bad quality’ (Grönroos, 1991). The superiority of providing valuable services is translated as quality in the customers’ eyes (Zineldin, 2006). Because of the zooming development of service sectors worldwide, service quality is today considered as a driver to corporate marketing and financial performance (Buttle, 1996), the foundation of services marketing and the basis of sustainable success and survival in the marketplace (Fitzsimmons and Fitzsimmons, 2001). In fact, service quality can be defined as a customer’s perception of the overall superiority of an organization’s excellence in providing service (Zeithaml, 1988). The key to sustainable competitive advantage in today’s competitive environment lies in delivering high-quality service that result in satisfied customers (Shemwell et al., 1998). Timmers and Van Der Wiele (1990); Kandampully (1997); and Kotler (2000) profess that satisfying the customer is not enough: there is a compelling need to delight the customer if a competitive advantage is to be achieved. In today’s competitive environment, customers’ expectations and technological innovation demand that service leaders distinguish themselves from the competition by truly delighting the customer.

Significantly, quality service has become the benchmark for the success in the competitive environs of socio-economic activities today. Therefore, the quest for service quality has been an essential strategic component for firms attempting to succeed and survive (Parasuraman et al., 1985; Reichheld and Sasser, 1990). From the marketer’s perspective, service quality can be viewed as the level of service attributes
needed to make the service acceptable and profitable in the market place, thus, satisfying the marketers’ needs for profitability and economic success. On the other hand customers view service quality as equivalent to the level of service attributes required to satisfy their own needs and requirements. In this respect marketers try to define service quality in advance while customers make during and after use evaluations (Gounaris et al., 2003). To assess the quality of services and form an impression about the relative inferiority/superiority of a service provider and its services (Bittner and Hubert, 1994), customers compare the level of the service delivered to them with their own personal expectations, shaped by past experience (Grönroos, 1982, 1984; Lehtinen and Lehtinen, 1982; Lewis and Booms, 1983). The result of this comparison is defined as perceived service quality (Grönroos, 1982, 1984; Takeuchi and Quelch, 1983; Parasuraman et al., 1985, 1988). Hence, service quality is at the forefront of both the marketing literature in general, and the services marketing literature in particular (Jensen and Markland, 1996; Lassar et al., 2000).

Definitions of service quality revolve around the idea that it is the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Lewis and Booms, 1983; Lehtinen and Lehtinen, 1982; Grönroos, 1984; Parasuraman et al., 1985, 1988, 1991, 1994). Therefore, the focus of service quality research is on customers’ perceptions of the level of service they receive. For example, customers’ evaluation of the friendliness of staff, or consideration about the time that it took for service to be delivered, or how they felt about the atmosphere in the office – all are perceptions about the quality of service (Zeithaml, 1988). What counts in services is the conformance to the wishes of customers rather than to any predetermined set of specifications (Berry et al., 1985). This means that, in the final analysis, customers are the exclusive judges of service quality no matter what the marketer thinks. If customers disagree with the marketer’s perspective then the service is problematic (Berry and Parasuraman, 1991).

An all-embracing definition of service quality is notoriously difficult to produce (Parasuraman et al., 1985; Carman, 1990; Mattsson, 1994; Bolton and Drew, 1991). It is one of the most dominant themes of research in services (Fisk et al., 1993). Thus,
instead of using quality concepts from manufacturing, services marketing researchers based their work on developing a service quality concept on models from consumer behaviour (Brown et al., 1993).

Service excellence is no more a matter of courteousness or corporate offering but the most decisive weapon in a firm’s quiver and the concept of service quality has been subjected to extensive research (Tsoukatos, 2007). The interest in service quality has been influential in contributing significantly to the growth of the general services marketing field (Vigripat and Chan, 2007). Cronin and Taylor (1992) postulated that curiosity in the appraisal of service quality was discernibly high, and the delivery of higher levels of service quality was the tactics that was predominantly offered by service providers to effectively compete in the global market (see Rudie and Wansley, 1985; Parasuraman et al., 1988; Brown and Swartz, 1989). Therefore, it is easy to assume that improved service quality will positively affect the customer’s experience, and customer satisfaction level will increase simultaneously (Joung, 2009). Organization must take into account what their customers’ wants and needs are when they develop their products and perform their services. The saying goes, “customer is always right: especially when dealing with the subjective area of quality and service, the interpretations that matter the most are those of the customers (Gutheim, 2000).

1.1.3 Measurement of Service Quality
The measurement of service quality has been a real challenge for service providers. Edvardsen et al. (1994) states that in their experience the starting point in developing quality in services is, analysis and measurement. Numerous scholars (Ovretveit, 1993; Yang, 2003; Sinclair and Zairi, 1995; Silvestro et al., 1990) have emphasized the importance of service quality measurement, as it judges not only the external perceptions but also the real effectiveness of an organization operation. Over the past several years, there have been a variety of debates in the literature regarding service quality conceptualization and measurement. Measuring service quality seems to pose difficulties for academics and practitioners because of unique characteristics (e.g. intangibility, heterogeneity, inseparability, and perishability) of service. However, it has been a competitive advantage for businesses that compete in service sector industries.
As such, many researchers have attempted to conceptualize and measure service quality. Two of the most popular conceptualizations and operationalizations of this construct are the Disconfirmation-based SERVQUAL scale (Parasuraman et al., 1985, 1988) and its main rival, the Performance-based SERVPERF scale (Cronin and Taylor, 1992).

1.1.3.1 SERVQUAL vs. SERVPERF

In 1980s, in the attempt to define service quality and to develop a model of service quality, Parasuraman et al. (1985) conducted an exploratory investigation to identify five key discrepancies or gaps that comprised within – company deficiencies (Gaps 1 through 4) and customer-perceived quality deficiencies (Gap 5). Through this gap model they developed a conceptual model of service quality (see figure 1.1). According to Brown and Bond (1995), “the gap model is one of the best received and most heuristically valuable contributions to the services literature”. The first four gaps (Gap 1, Gap 2, Gap 3, Gap 4) are identified as functions of the way in which service is delivered, whereas Gap 5 pertains to the customer and as such is considered to be the true measure of service quality. The Gap on which the SERVQUAL methodology has influence is Gap 5. Parasuraman et al. (1985) regarded the first four gaps as major contributors to the service quality gap (Gap 5) that customers may experience. Gap 5 is thus a key conceptual basis for the SERVQUAL instrument, making the instrument focused upon a customer-oriented definition of service quality. This model indicates that consumer perceptions of quality are influenced by five gaps occurring in the internal process of service delivery.

Parasuraman et al. (1985) revealed ten dimensions viz., tangibles, reliability, responsiveness, competence, courtesy, credibility, security, communication, understanding, and access (see figure 1.2) in the original model of service quality. But in the subsequent study of Parasuraman et al. (1988), these ten dimensions were condensed into five viz., tangibles, reliability, responsiveness, assurance, and empathy. This led to the development of a 22-item SERVQUAL scale for measuring service quality. Dimensions of tangibles, reliability, and responsiveness were not changed,
however, the two last dimensions (assurance and empathy) contain items representing
seven original dimensions viz., assurance contains communication, courtesy,
credibility, security, competence, whereas empathy contains understanding and access
(Carman, 1990). According to the SERVQUAL scale (Parasuraman et al., 1988),
service quality (Q) can be measured by identifying the gaps between customers’
expectations (E) of the service to be rendered and their perceptions (P) of the actual
performance of the service. The interpretation and role of expectations in determining
judgments about quality, as delineated here, has been a controversial theme throughout
the literature (Cronin and Taylor, 1992, 1994; Teas, 1993). The negative (P-E)
difference was characterized as a “gap” or quality flaw. The SERVQUAL instrument
consists of two sections: (1) an expectations section containing 22 statements to
ascertain general customer expectations concerning a service, and (2) a perceptions
section containing a matching set of 22 statements to measure customers’ assessments
of a specific firm (Zeithaml et al., 1990). Academic literature postulates that consumer
satisfaction is a function of the discrepancy between a consumer’s prior expectations
and his or her perception regarding the purchase. Disconfirmation arises from
discrepancies between prior expectations and actual performance. Positive
disconfirmation can occur when the product performs better than expected; and
negative disconfirmation when the product performs below expectations and
dissatisfaction sets in (Churchill and Surpremant, 1982; Oliver, 1977, 1980, 1981; Oliver
and DeSarbo, 1988; Tsc and Wilton, 1988; Yi, 1990). Various alternative instruments
have been used to assess service quality, notable among these being the SERVQUAL
diagnostic presented in 1988 (Parasuraman et al., 1988) and based on critique from the
other academics, the wording of some of the items of SERVQUAL scale was revised or
refined in 1991 by Parasuraman et al. (1991). Table 7.2 represents the five dimensions
consisting of 22 items of the SERVQUAL battery.
Introduction

Gap 1 (customers’ expectations-management – perception gap): This gap represents the management not knowing what customers expect, which is due to: (1) lack of a market research orientation (insufficient marketing research, inadequate use of research findings, lack of interaction between management and customers); (2) inadequate upward communication from contact personnel to management; and (3) too many levels of management separating contact personnel from top managers.

Gap 2 (management’s perceptions – service quality specifications gap): this gap is the result of sub-par service quality standards due to: (1) inadequate management commitment to service quality; (2) perception of infeasibility; (3) inadequate task standardization; and (4) absence of goal setting.

Gap 3 (service quality specifications – service delivery gap): This gap arises when there is a significant discrepancy between designed service and actual delivery of it. Such problems occur due to: (1) role ambiguity; (2) role conflict; (3) poor employee-job fit; (4) poor technology -job fit; (5) inappropriate supervisory control systems; (6) lack of perceived control; and (7) lack of teamwork.

Gap 4 (service delivery – external communications gap): This gap stems from desynchronize between promises and actual delivery experiences due to: (1) inadequate horizontal communication; (2) differences in policies and procedures across branches or department; and (3) propensity to over promise.

Gap 5 (key determinants of service quality – service quality gap customers perceive): This gap represents the potential discrepancy between the expected and perceived service from the customers’ standpoint. Key determinants of expected service include word-of-mouth communications, personal needs and external communications.

Note: Adapted and Modified from Zeithaml et al., 1990, p 46.
Introduction

The SERVQUAL scale is one of the first attempts to operationalize the service quality construct. It is the one of the preeminent instruments for measuring the service quality as perceived by the customers (Van Dyke et al., 1999) and is the most frequently used model to measure service quality (Mattson, 1994) to be used by services organizations or industries to improve service quality (Parasuraman et al., 1988).

Figure 1.2: Customer Assessment of Service Quality

Note: Adapted from Parasuraman et al., 1985, p 48

Obviously, the SERVQUAL instrument has been used to measure service quality in various service industries which included health sector (Babakus and Boller, 1992; Carman, 1990; McAlexander et al., 1994; Bowers et al., 1994; Babakus and Mangold, 1989; Headley and Miller, 1993; Lam, 1997; Kilbourne et al., 2004); retailing (Teas, 1993; Finn and Lamb, 1991; Tsai and Huang, 2002; Naik et al., 2010); banking (Lam, 2002; Zhou et al., 2002; Sharma and Mehta, 2004); hospitality (Mey et al., 2006; Spreng and Singh, 1993); sports (Kouthouris and Alexandris, 2005); higher education (Singh and Khanduja, 2010); telecommunications (Van Der Wal et al., 2002); and information system (Jiang et al., 2002; Carr, 2002; Kettinger and Lee, 1997; Pitt et al., 1997). In addition, there have been several contextual studies (Stafford et al., 1998; Leste and Vittorio, 1997; Westbrook and Peterson, 1998; Mehta et al., 2002; Tsoukatos et al., 2004; Goswami, 2007; Gayathri et al., 2005; Siddiqui et al., 2010) regarding the insurance industry.
Additionally, a review of the relevant literature also reveals that the principal focus of service quality research has been twofold: First, the identification of service quality dimensions being of primary interest to researchers (Parasuraman et al., 1985, 1988, 1991b); and second, the development of measurement instruments of service quality being the focus of subsequent research efforts (Parasuraman et al., 1988, 1991a, 1993; Cronin and Taylor, 1992, 1994; Asubonteng et al., 1996, Buttle, 1996). Numerous researchers have confirmed the applicability of five dimension model in different sectors in different countries (e.g. Gabbie and Neill, 1996; Bojanić and Rosen, 1994; Mehta and Durvasula, 1998; Lam and Zhang, 1999); however in some studies the five dimension model was not confirmed (e.g. Carman, 1990; Babakus and Boller, 1992; Brown et al., 1993; Ryan and Cliff, 1996; Zhao et al., 2002; Wang et al., 2004; Jain and Gupta, 2004; Tsoukatos et al., 2004). In the various other significant studies, the SERVQUAL scale has been presented in different dimensions – single-dimensional (Babakus et al., 1993b; Lam, 1997), two-dimensional (Babakus and Boller, 1992; Nadiri and Hussain, 2005; Karatepe and Avci, 2002; Ekinci et al., 2003; Tsoukatos et al., 2004), three-dimensional (Bouman and Van Der Wiele, 1992; Wong Ooi Mei et al., 1999), four-dimensional (Gagliano and Hathcote, 1994; Kilbourne et al., 2004 Akviran, 1994), six-dimensional (Headley and Miller, 1993), seven-dimensional (Sasser et al., 1978; Freeman and Dart, 1993), nine-dimensional (Carman, 1990), and nineteen-dimensional (Robinson and Pidd, 1998) construct. Besides, a number of researchers in different contexts have reported different dimensions for expectations, perceptions, and gap scores (Arasli et al., 2005; Zhao et al., 2002; Parikh, 2006). In summing up, Babakus and Boller (1992) commented that “the domain of service quality may be factorially complex in some industries and very simple and uni-dimensional in others”. In effect, authors claim that the number of service quality dimensions is dependent on the particular service being offered.

The SERVQUAL model has been criticized for its use of gap scores, measurement of expectations, positively and negatively worded items, the generalizability of its dimensions, the defining of a baseline standard for good quality, validity, and reliability (Cronin and Taylor, 1992, 1994; Brown et al., 1993; Oliver, 1993; Babakus and Boller,
Introduction


Dotchin and Oakland (1994) states that dimensionality of SERVQUAL depends on the context in which it is applied and cannot be generalized in all and any service industry. Similarly, Brown et al. (1993) suggested that SERVQUAL has to be modified and adapt-based on the industry, the business and the location. Asubonteng et al. (1996), based on a critical review of eighteen service quality empirical studies, reached the conclusion that the underlying SERVQUAL dimensions are likely to be industry specific. Ozer (1999) recommends the development of industry-specific quality measurements for a better fit to the nature of the industry. As a result, numerous studies in different service sectors have sought to develop industry-specific service-quality scales. For example, several scales have been replicated, adapted and developed to measure services by taking SERVQUAL as a base, viz., SERVPERF (Cronin and Taylor, 1992, 1994) for hotels, clubs and travel agencies; DINESERV (Stevens et al., 1995) for food and beverage establishments; LODGSERV (Knutson et al., 1990) for hotels; SERVPERVAL (Petrick, 2002) for airlines; SITEQUAL (Yoo and Donthu, 2001) for Internet shopping; E-S-QUAL (Parasuraman et al., 2005) for electronic services; SELEB (Toncar et al., 2006) for educational services; HISTOQUAL (Frochot and Hughes, 2000) for historic houses; LibQUAL (Cook et al., 2002) for library ; and ECOSERV (Khan, 2003) for ecotourism.

Since SERVQUAL was developed in a Western country, it has been suggested that researchers should be sensitive to cultural differences in examining the dimensionality of service quality in other countries (Kettinger et al., 1994). Donthu and Yoo (1998) found that, as a result of their cultural orientation, consumers vary in both their overall service quality expectations, and their expectations on each of the dimensions of service quality. Mattila (1999) found that customers with a Western cultural background might be more likely to rely on tangible cues than their Asian counterparts, and that the hedonic dimension of the consumption experience might be more important for Western consumers than for Asians. In an examination of cross-cultural differences between North American and Latin American consumers, Espinoza (1999) found that the
relative importance of service quality dimensions was different between the two groups. Moreover, the SERVQUAL instrument has been criticized for its lack of applicability in service industries in developing countries (Jain and Gupta, 2004) and its inconsistent perception and expectation scores in cross-cultural studies (Zhao et al., 2002). Ford et al.’s (1993) empirical cross-cultural results seem to indicate that the scale is also country specific. Support for this notion also comes from Akviran (1994) and LeBlanc and Nguyen (1988). Furrer et al. (2000) claims that customers from different cultures perceive service quality differently. Voss et al. (2004) partly support this claim; they found that UK and USA customers have different reactions to poor service.

With an argument that Parasuraman et al.’s gap theory of service quality was supported by little empirical or theoretical evidence, Cronin and Taylor (1992) developed a “Performance-based” service quality measurement scale called SERVPERF. They suggested that service quality be measured using a performance-only scale (SERVPERF) instead of the gap-based SERVQUAL scale. They reported that the use of the SERVPERF scale containing only performance items explained more of the variation in service quality than did the entire 44-item (22 for perceptions and 22 for expectations) SERVQUAL instrument. This instrument measures only the current performance of a service provider, however, it still uses the same set of items and dimensions proposed by Parasuraman et al. (1988). The results of a number of other studies have supported Cronin and Taylor’s (1992, 1994) use of performance-based measures of service quality over gap measures (Carman, 1990; Babakus and Boiler, 1992; Babakus and Mangold, 1992; Teas, 1993; Brown et al., 1993; Avkiran, 1999; Lee et al., 2000; and Brady et al., 2002; Bolton and Drew, 1991b).

The results show that each model has been proved by statistical method; therefore, it is hard to judge which one is better. Methodologically, the SERVPERF scale represents marked improvement over the SERVQUAL scale. Not only is the scale more efficient in reducing the number of items to be measured by 50 per cent, it has also been empirically found superior to the SERVQUAL scale for being able to explain greater variance in the overall service quality measured through the use of single-item scale. Sensing its superiority, even Zeithaml (one of the founders of the SERVQUAL scale) in
a recent study observed that results are incompatible with both the one-dimensional view of expectations and the gap formation for service quality. Instead, it was found that perceived quality is directly influenced only by perceptions (of performance) (Boulding et al., 1993). This admittance testifies to the superiority of the SERVPERF scale. Though still lagging behind the SERVQUAL scale in application, researchers have increasingly started making use of the performance-only measure of service quality (Babakus and Boller, 1992; Boulding et al., 1993; Brady et al., 2002; Cronin et al., 2000; Cronin and Taylor, 1992, 1994). However, the continued use of and reference to SERVQUAL in marketing literature suggest that “consensus relative to the superiority of performance-only measures of service quality has not yet been reached” (Brady et al., 2002). Parasuraman et al. (1994) concluded: If maximizing predictive power is the principal objective, the perceptions-only scale is the best as it outperforms all other measures on this criterion. There is general agreement that service quality is a multi-dimensional or multi-attribute construct (Cronin and Taylor, 1992; Parasuraman et al., 1994), but there remains a debate on how best to conceptualize and operationalize the construct (Cronin and Taylor, 1994; Parasuraman et al., 1994; Teas, 1994).

Although, SERVQUAL dimensions cover only human element of service delivery and tangibles facet of the service, in the opinion of Sureshchandar et al. (2001) the concept of service quality encompasses other critical factors also. In an effort to conceptualize all inclusive service quality, Sureshchandar et al. (2001) identified five factors viz., core service or service product; systematization/standardization of service delivery: non-human element; human element of service delivery; and social responsibility as critical (see figure 1.3) from customers’ point of view to measure service quality. These factors resulted after modifying the original SERVQUAL instrument, by adding and/or reducing other relevant factors.
Figure 1.3: Critical Factors of Customers’ Perceived Service Quality

Dimensions addressed by Parasuraman *et al.* (1985, 1988)

- Service Delivery
  - Human Element
  - Tangibles
  - Servicescapes

Dimensions addressed by Sureshchander *et al.* (2000, 2001)

- Service Content
  - Core Service
  - Service Delivery
  - Non-human element
  - Social Image
  - Social Responsibility

Note: Adapted from Sureshchander *et al.* (2001)
1.2 The Indian Life Insurance Service Sector

The service sector hiterto limited in nature and scope, has changed into an aggressive mode appropriating the front stage touching almost every sphere of human activity, viz., health, education, banking, insurance, travel, information technology, welfare etc. With the competitors vying for the special niche, oneupmanship predicates continual refining of the services to hold on to the trusting customer-industry relationship. The entire gamut of the service sector has been witnessing a purposefully multidimensional, consumer-friendly approach shedding off the complacency that had come to be associated with the sector.

Service industry has now emerged as the first and the biggest abode of human talent and jobs (Agrawal, 2005). Three out of the four people are now employed by service firms and over 70 percent of the new job openings are offered to the fresh technical and business graduates of India from the service sector. The sector is growing in recognition in the industrialized nations and creating new markets and more jobs. The richest individual of the world (Bill Gates of the Microsoft fame in the USA) and the richest individual Indian (Azim Premji of the Wipro fame in India) are from the service industry. Driven by technological developments, liberalization and globalization, the service sector in post-industrial economies is undergoing a metamorphosis. It has become a multi-faceted construct in the present scenario. The breadth and diverse nature of the service sector is reinforced by increasing diversity in the modes of service delivery, in the sources of service provision, and in the patterns of customer-provider interaction (Laing et al., 2002).

1.2.1 Concept of Insurance

Service sector has produced approximately two-thirds of worldwide GNP from twenty first century (Kara et al., 2005). Within the huge service sector, insurance sector is one of the most important service segments and has been growing quite fast in India. It provides financial recompense for losses suffered due to incidence of unanticipated events, insured within the policy of insurance. Pure services like insurance conjure different expectations than that of services that include tangible products (Toran, 1993).
Introduction

Insurance is a mechanism for reducing the uncertainty of an individual/organization through the exchange or transfer of specific risks to the insurer who offers a form of economic restoration, albeit partly, to the insured for losses incurred (Osuagwu, 2001). From the perspective of the customers, insurance is best described as the transfer of a particular risk from the insured to the insurance company at the price of the insurance premium (Trowbridge, 1975). Insurance as a service is often seen as a process that requires face-to-face contact and expertise (Ahonen, 2004).

Human life is subject to risks of death and disability due to natural and accidental causes. Risk has the element of unpredictability (www.irdaindia.org). Security of life provided by insurance gives us freedom from anxiety and peace of mind. Similarly, life insurance is a part of insurance. Life insurance contract is an agreement wherein the insurer agrees to pay a certain sum to the assured upon the happening of events specified in the policy, and upon the assured paying the premium for the agreed term (Krishnan, 2010). Yaari (1965) considered the demand for life insurance within the lifetime allocation process of an individual, subject to personal desire to leave funds for dependants and provide income for retirement. Hakansson (1969) extends this, suggesting that the level of demand for life insurance products is also a function of wealth, the individual’s income stream, the level of interest rates, policy premium rates, and the assumed discount function for current consumption. Insurance is understood by most people to be critical to a well-functioning economy (Pritchett et al., 1996).

One most important feature of the life insurance product is its intangibility, where the service will only be rendered in relation to some future events. This is why it is often said that insurance is often sold and not bought (Annua, 2004). There are two branches of insurance viz., Life and General operating in India. Life Insurance Corporation (LIC), formed under Life Insurance Act 1956, deals with life insurance. At present there are twenty three players in the Indian life insurance industry out of which LIC, one of the leading public companies, has largest number of policies in the world to suit every financial requirement of an individual. LIC stands for trust and is servicing 270 million policyholders in India and abroad (www.licindia.in). In addition to risk coverage, it provides some additional return on its policies and tax benefits to the policyholders.
(under section 88 of the income tax act). However, it, a sole player till recently, is now facing a stiff competition from private players in the field. Its strong brand backed by long experience and well established network has helped it to maintain the lead.

1.2.2 Marketing of Life Insurance Services

Insurance service is intangible in nature. The main variable affecting a person’s demand for insurance services is person’s attitude toward risks (Osuagwu, 2001). The term ‘insurance marketing’ refers to marketing of insurance services mainly based on the motto of customer orientation, which makes possible a fair blending of customer satisfaction and profit generation. The insurance marketing focuses on the formulation of an ideal mix for the insurance business so that the insurance organizations survive and thrive in a right perspective. It basically involves the determination of financial insecurity of the customers, designing of new schemes, policies, innovations and profitable marketing of these designed schemes to the potential customers for their satisfaction. The main purpose of the life insurance marketer is related to the profitable sale of services that satisfies customer financial requirements and needs (Jha, 2003, p 164).

Customer expectations and awareness have significantly increased in recent years, particularly in terms of better and speedy service, accurate pricing and customized solutions. It has become more imperative these days that every customer is serviced, based on the customized needs and the type of risk they intend to insure for (Easwaran, 2009). As has been noted in Update (2003), in the 21st century, customers’ expectations towards life insurance products have changed. They no longer buy life insurance products blindly but make comparisons between various policies offered. The insurance industry has realized that unless the behaviour of customers, after the initial purchase, is understood, the potential for building long-lasting insurer-insured relations is diminished (Harrison, 2003). With the increased competition from new products and delivery channels, insurance industry in service sector strives to succeed by improving their performance. Their focus is on both cost reduction and quality improvement. They try to improve their operational efficiency and enhance quality in the eyes of their
customers. Due to the advent of new products and options for various channels of delivery through information technology applications, service delivery has emerged as an important attribute in satisfying customers (Krishnan et al., 1999). It has been reported that more than 70 percent of the defection of customers in the financial services sector is due to dissatisfaction with the quality of services delivered (Bowen and Hedges, 1993). As such, LIC is placing increased emphasis on customer satisfaction and trying hard to meet the needs of various segments of customers by offering multiple products and services through different channels of delivery. With its wide network, trained staff and decentralization of servicing functions to the branches, LIC has been trying hard not only to move closer to the customers but also to avoid delays in the delivery of services.

While reviewing the performance of the insurance industry, Dorfman (1980) observes that not many new improvements have been forthcoming in recent years. Some of the areas of deficiencies include lack of copyright protection for life products, regulatory opposition, consumer and salemen's attitudes. Life insurance is a professional service which is characterized by high involvement of the consumers due to the importance of tailoring specific needs, the variability of products available, the complexity involved in the policies and processes and the need to involve consumer in every aspect of the transaction. All these characteristics cause the customer to seek long term relationships with their insurance agents, their service providers, in order to reduce risks and uncertainties (Berry, 1995). Today, customers expect life insurance agents to analyze their personal and family needs before designing the most suitable policies for them. Therefore, insurance sales agents must fully understand the customers' needs and requirements as well as build a trusting relationship between themselves and their clients to promote long-term mutually beneficial relationship (Crosby et al., 1990). After the sale, agents provide follow-up service and help customers make policy changes in response to changing needs. This would justify the importance of continuous research to satisfy the customers in this dynamic marketing industry.

Meidan (1984) argues that the insurance services sector constitutes a financial service industry that has currently been changed by aggressive strategic marketing behaviour.
Introduction

However, with the entrance of various competitive insurance companies with their joint ventures, the existing life insurance company i.e. LIC competes fiercely for insurance businesses. This has led to the designing of new marketing strategies by LIC to provide quality service to customers in order to survive, grow, and achieve set goals and objectives. The customer persuasion process can be speeded up with the support of creative promotional measures. Premium and bonus decisions can be made motivational, gap between the services promised and services offered can be bridged over (Jha, 2003, p 164). Equally the quality and appreciative staff can make performance orientation possible. The marketing concept in the insurance business is concerned with expansion in the best interest of society vis-à-vis the insurance organizations. In the coming years, the service sector will be the biggest driver of the new economic growth and profit earner. The common consumer has graduated into critical awareness filled with expectations of quality service – the USP (Unique Selling Property) of a product.

1.3 Relevance of the Study

Predictably, service sector having become seminal to entrepreneurial activities, would continue to occupy the centre stage as a cult in both business and academic deliberations. However, the dynamics of the cult of service quality are destined to be in a flux. Emerging as a relatively important industry, studies are being conducted on marketing of LIC services in the post liberalized scenario. Much needs to be woked out how the life insurance business may influence the economy. This study proposes to be a step in that direction.

The success of an organization depends on the concerted efforts being made by its different departments to achieve accredited status. As a result, the study of the profile of LIC makes an interesting narrative to have an insight into its rejuvenation. With the opening up of the Indian insurance sector, many global players have entered the potential arena to establish themselves in the market who has virtually challenged the monopoly of LIC. Therefore, it is altogether necessary to study the scenario in which life insurance companies are operating. The new scenario has proved to be a wake-up call for the public sector company (LIC), which has restructured its marketing strategy.
to retain its space in the business. For sure, it had to shed off its tardiness and self-complacency. In the post liberalized environment, the study of different marketing strategies adopted by it to woo the customers become all the more essential.

The agents – the point men and the customers play a crucial role in the Indian insurance industry. Both of them call for a thorough study to help LIC to endorse new productive measures for surging ahead in the market share. In the competitive environment the quality of service is a vital mechanism used to achieve a competitive edge. Thus, an attempt has been made to analyse the customers’ perception towards service quality of a national life insurance company i.e. LIC (which had received little attention in the past) and to assess factors influencing agents’ perception towards their organization.

Service quality studies have become one of the most popular marketing areas in the past decade or so both in academic and industry-based research. This has stimulated a wealth of commercial service quality studies being commissioned by different service providers. Marketing managers rely on the results from such service quality studies as a basis for important business decisions such as: determining annual achievements and setting corporate goals, identifying the strengths and weaknesses of their offerings, and setting up service standards (Bogomolova, 2005). However, the earlier work has advanced our understanding of service quality measurement. The review of literature reveals that SERVQUAL, designed to be a generic instrument applicable across a broad spectrum of services, has been extensively used, replicated, and found inadequate in many cases, however it has not been perspective applied in the Indian life insurance sector. As a consequence, it has been decided to use the SERVQUAL instrument to measure the level of services provided by LIC and to find out its suitability in the Indian life insurance sector.

Moreover, empirical research in service sector till date is primarily built on the Parasuraman et al. (1988) SERVQUAL instrument, a 22 – item scale that measures service quality of customers across five dimensions. Although, these dimensions cover only human element of service delivery and tangibles facet of the service, but according to Sureshchandar et al. (2001) the concept of service quality does not confine to the
realms of these factors alone but also encompasses other critical factors namely, service product or the core service, systematization of the service delivery and social responsibility. Therefore, in the present study customers’ perception towards service quality has also been measured by applying a framework developed by Sureshchandar et al. (2001, 2002), which has been untouched in the empirical literature. Service quality perception of customers would help LIC to efficiently design its marketing strategies to improve the quality of its services.

Agents play a vital role in influencing the decision of policyholders and providing customer services to them as per their needs. The study of agents’ perception is significant for LIC to market its strategies more effectively. Therefore, factors influencing agents’ perception towards LIC are also of vital importance which has been dealt with in the present research.

1.4 Objectives of the Study

In view of above, the present research has seven major objectives:

- to present a comprehensive profile of LIC.
- to examine the impetus of emerging competitive scenario in the life insurance sector in India.
- to study the existing marketing strategies adopted by LIC for marketing its services.
- to test the reliability and the dimensionality of SERVQUAL instrument.
- to measure customers’ perceived service quality, using an extended framework of SERVQUAL instrument.
- to assess the factors influencing agents’ perception towards LIC.
- to suggest suitable measures for effective functioning and for increasing sales of LIC.

1.5 Organization of the Study

Apart from chapter on introduction, the present study consists of nine other chapters. Chapter II is devoted to a thorough literature review on both empirical and conceptual studies regarding life insurance service sector. This review is intended to obtain a key
Introduction

Insight into the current status of research on different perspectives from a holistic angle, and hence to identify the research issues, to be addressed in the present study. It is on this basis, the entire research work is organized. Data base and methodology for the study has been explained in Chapter III. It describes the nature and sources of data collected as also the various statistical techniques used for the analysis of the same.

Comprehensive profile of LIC has been presented in Chapter IV. Different issues viz., liberalization of the life insurance sector, existing life insurance players in the market, innovations made by them (relating to various aspects of marketing), their performance, growth prospects, IRDA role, as well as the challenges ahead in the life insurance sector have been discussed in Chapter V. Chapter VI presents the marketing strategies adopted as well as other services offered by LIC. All these chapters are based on secondary data collected from the records of LIC as well as from other relevant sources.

Chapter VII makes a diagnostic approach to the application of SERVQUAL instrument developed by Parasuraman et al., (1985, 1988). To measure the customers’ perceived life insurance service quality, a framework developed by Sureshchandar et al. (2001) has been employed in Chapter VIII. An advocated procedure has been used to develop, refine and validate a scale.

Further, analysis of the factors’ influencing agents’ perception towards LIC has been studied in Chapter IX. The agents were asked to explore their perception in respect of their training, LIC’s advertisement, facilities, services provided to them as well as the functioning of the LIC etc.

Finally, the summary of the research study, conclusions and suggestions, thereof, have been presented in Chapter X.