CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

A literature review is a body of text that aims to review the critical points of current knowledge on a particular topic.

Most often associated with science-oriented literature, such as a thesis, the literature review usually precedes a research proposal, methodology and results section. Its ultimate goal is to bring the reader up to date with current literature on a topic and forms the basis for another goal, such as the justification for future research in the area.

A good literature review is characterized by: a logical flow of ideas; current and relevant references with consistent, appropriate referencing style; proper use of terminology; and an unbiased and comprehensive view of the previous research on the topic. It helps with all types of assignments as well.

According to Cooper (1988) "a literature review uses as its database reports of primary or original scholarship, and does not report new primary scholarship itself. The primary reports used in the literature may be verbal, but in the vast majority of cases reports are written documents. The types of scholarship may be empirical, theoretical, critical/analytic, or methodological in nature. Second a literature review seeks to describe, summarize, evaluate, clarify and/or integrate the content of primary reports". 
Based on the Research Problem, theories about service quality will be presented in this chapter, which starts by presenting definition of service quality, theories of service quality followed by theories of service quality in Banks.

2.2 SERVICE QUALITY

This part will provide better understanding of service quality covering definition of service quality and dimensions of service quality.

2.2.1 Definition of Service Quality

With increasing Competition, service quality has become a popular area of academic investigation and has been recognized as key factor in keeping competitive advantage and sustaining satisfying relationship with customers (Zeithmal et al 2000). Ghobadian et al (1994) posit that most of the service quality definitions fall within the “customer led” category. Juran (1999) elaborates the definition of customer led quality as “features of products which meet customer’s needs and thereby provide customer satisfaction.” As service quality relates to meeting customers’ needs “perceived service quality” is to be identified to understand consumers (Arnauld et al 2002). Grönroos (1984) and Parasuraman et al (1985) look at perceived quality of service as the difference between customers expectation and their perceptions of the actual service received. In addition to that they suggested three underlying themes after examination of previous writing and literature on services.

1. service quality is more difficult for the customer to evaluate than goods quality

2. service quality perceptions result from comparison of consumer expectations and actual service performance and
(3) Quality evaluation is not made solely on the outcome of service; they also involve evaluations of process of service process delivery.

Other researchers look at perceived service quality as an attitude. Arnauld et al (2002) defined perceived quality “whether in reference to a product or service” as “the consumers’ evaluative judgment about an entity’s overall excellence or superiority in providing desired benefits”. Hoffman and Bateson (2001) defines service quality as an attitude “formed by a long-term, overall evaluation of a performance”. Attitude is defined as “a consumer’s overall, enduring evaluation of a concept or object, such as a person, a brand, or a service” (Arnauld et al 2002). Service quality as “an attitude” is consistent with the views of Parasuraman et al (1988) who further explained that service quality is overall evaluation of a firm’s service by comparing the firm’s performance with customer’s general expectation on how the firm should perform. They then stated that service quality as global judgment or attitude relating to superiority of service.

Cronin and Taylor (1992), Sureshchandar et al (2003). Basis of the view is elaborated by the latter: “As perceived service quality portrays a general, overall appraisal of service i.e. a global value judgment on the superiority of the overall service, it is viewed as similar to attitude”.

Feinburg and de Ruyter (1995) pointed the importance of adapting the definition of service quality in different cultures. Cultural factors are said to have greater influence on people’s evaluation of services than on their evaluations of physical goods due to involvement of customer contact and interaction with employees while a service is delivered (Mattila 1999).

Page and Spreng (2002) argued that a performance – only measure is superior since it is more reliable and defensible. They further argued that
performance is much stronger indicator than expectation. Although the conceptual discussion about service quality continues, it can be seen that service quality is multi-level and multi-dimensional that mean different things to different authors (Cronin et al 2000).

2.3 SERVICE QUALITY MEASUREMENT

It is difficult to measure service quality as compared to good’s quality. The difficulty to measure is due to fewer tangible cues available when consumers purchase services (Parasuraman et al 1985), fewer search properties, but higher in experience and credence properties (Parasuraman 1985), as compared to goods.

It also requires higher consumer involvement in the consumption process (Grönroos 1984).

Zeithaml (1981) describes that there are different criteria for evaluating different types of services. He defined the services into High search quality service, high in experience quality service and high in credence quality service.

Researchers operationalize the service quality construct either as a gap between expectation of service and perceived performance of service, or just perceived performance alone (Hurley and Estalami 1998). On the other hand, service quality dimensions are seen as the criteria to assess service quality (Parasuraman et al 1985). Feinburg, and de Ruyter (1995) supported this idea as they postulate that the dimensions are instruments for measuring perceived service quality. They also posit that consumer-perceived service quality is usually seen as a multi-dimensional construct.
The earliest research on service quality dimensions was done by Grönroos (1984). He found that the perceived quality of a service is affected by the experience that the consumer went through for a service. Therefore, he encapsulated the perceived quality of a given service as the outcome of an evaluation process; a comparison between the consumer expectations of the service with his perceptions of the service he has received. He also pointed that expectation is influenced by traditions, ideology, word-of-mouth communication, and previous experience with the service and the consumer’s perception of the service itself determines his perceived service.

However, he did not discuss the relationship between perception and expectation and how it influences service quality.

2.4 SERVICE QUALITY DIMENSIONS

Numerous studies have sought to uncover the attributes of global service that contribute most significantly to relevant quality assessment in traditional service environment (Gronroos 1982, 1984, Parasuraman et al 1985, 1988).

Grönroos (1982) found that “Service Quality” comprises of three global dimensions. The first dimension is the technical quality (the outcome of service). This dimension refers to the outcome or what is delivered or what the customer gets from the service. The next dimension is the functional quality (the process of service) which refers to the manner in which the service is delivered or how it is delivered. These two dimensions together determines the image of the service provider called Corporate Image.

Leithnen and Leithnen (1982) states that service quality should include three dimensions: the Physical Quality which involves physical aspects associated with the service such as Equipments, Building etc;
Corporate quality which consists of service firms image or reputation and interactive quality which involves interaction between service personnel and customer. Comparing the works between Grönroos (1982) and Leithnen and Leithnen (1982), Swartz and Brown (1989) states that what the service delivers is evaluate after performance. This dimension is called Technical Quality by Gronroos (1982) and Physical quality by Liethnen (1982). They also stated that how the service is delivered is evaluated during delivery. This dimension is called Functional quality by Gronroos and interactive quality by Liethnen (1982).

Sasser et al (1978) suggested three attributes, all apparently dealing with the process of service delivery: Levels of material facilities and Personnel.

The most popular service quality model in the 1990s (Robinson 1999) is the model by Parasuraman et al (1985). Their model supported Grönroos’ findings as the models are based on these three underlying themes:

1. service quality if more difficult for the customer to evaluate than goods quality
2. service quality perceptions results from comparison of consumer expectations and actual service performance and
3. Quality evaluation is not made solely on the outcome of service; they also involve evaluations of process of service process delivery.

Unlike Grönroos (1984) who used global measure of service quality, Parasuraman et al (1985) identified 97 items or criteria in measuring service quality. They argued that consumers used similar criteria irrespective of the type of service in measuring service quality. They then group these
criteria into 10 key categories which they labeled as “service quality determinants”. The determinants are reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding/knowing the customer, and tangibles. Later in another research (Parasuraman et al 1988), they refined the dimensions into five namely tangibles, reliability, responsiveness, assurance, and empathy.

Johnston (1995) states 18 service quality attributes in banking. They are: access, aesthetics, attentiveness, availability, care, tidiness, comfort, commitment, communication, competence, courtesy, flexibility, friendliness, functionality, integrity, reliability, responsiveness and security.

Yang et al (2004) concluded that both studies of Parasuraman (1988) and Johnston (1995) offer particularly robust for traditional service quality dimensions for measuring traditional services and could serve as a good starting point for further research.

2.5 SERVICE QUALITY IN BANKS

The service quality has been widely used to assess the service performance of various organizations including banks (Cowling and Newman 1995). According to Johnston (1997), security and reliability were considered to be most important to customers; responsiveness, communication and competence were important.

Arsali et al (2005) attempts to measure the service quality perception of Greek Cypriot bank customers. Results reveal that the banks are not performing as per the expectation of the customers. The largest gap has been obtained in the responsiveness and empathy dimensions of service quality.
Allred and Addams (2000) suggests that banks and credit unions interested in improving service quality should focus on understanding customer expectations, customer evaluations of the service process and customer retention strategies.

Angur at al (1999) examined the applicability of alternative measures of service quality in India based on the data collected from customers of two banks. They suggest that the SERVQUAL scale provides greater diagnostic information than SERVPERV. However the five factor conceptualization of SERVQUAL does not seem to be correct.

Arora (2000) attempts to make comparative analysis of the customers of the public sector banks (PUBS), Private sector banks (PVTBS) and Foreign banks (FBS). It is evident from the finding that PUBS customers select a bank for an attribute – Convenience. On the otherhand, the efficient and speedy services, reputation, longer working hours are some of reasons why most of the PVTBS and FBS are chosen.

Bahia and Nantel (2000) developed a reliable and valid scale for the measurement of perceived service quality in the banking industry. The proposed scale is called as Banking service quality (BSQ) and comprises of 31 item with six dimensions: effectiveness and assurance, access, price, tangibles, services portfolio and reliability. Strictly speaking, the scale has only been validated in its French Language version, but the proposed items may serve as the basis for further research and scale development in other languages.

Bloemer et al (1998) states that service quality is both directly and indirectly related to bank loyalty via satisfaction. Reliability (a quality dimension) and position in the market (an image dimension) are relatively important drivers of bank loyalty. Also, the study reveals that factors like
society driven, empathy and customer contacts have an indirect effect on loyalty via satisfaction and quality.

Cui et al (2003) conducted a study among bank customers in South Korea. The result revealed that service quality measurement scale lacked validity with South Korean sample. It also revealed that SERVQUAL is not one dimensional.

Debasish (2002) attempts to find the level of service quality in commercial banks in Delhi by analysis their scores on various service quality dimensions. The study reveals that the Foreign banks provide a better service quality compared to Private and Public sector banks. Citibank, ICICI bank and State bank of India are perceived to deliver better services as compared to other banks. The public sector banks that account for over three-fourth of banking business in the country have failed to adequately satisfy their customers. There is a close competition between the private sector banks and foreign banks for gaining the largest market share by providing excellent service.

Edo (1999) aims at informing banks about critical factors that would determine their survival in today’s business by a field research in Nigeria. The finding indicates that liquidity, speed of service and secrecy are the three critical factors in customer’s choice of banks for both individual customers and the corporate customers.

Galloway and Blanchard (1996) investigates the effect of stage of life on perceived quality. The study collected data from the customers of TSB Bank plc., a sixth largest bank in UK. The study concludes that the stage of life has its affect on perception of service quality. The author suggests that different strategies need to be adopted to target four segments i.e. youth, independent, family and empty nesters. Youth wishes to be treated properly
and are mainly interested in cash in cash machines. The independent/unmarried are also concerned with the nature and quality of interaction with bank. The family, having more responsibilities than the earlier two segments is more concerned with privacy. The empty nesters attach more importance to the issue of personal treatment than to other factors. Keeping in mind the results of the study, the author proposes as service quality model based on three dimensions of process/outcome, subjective/objective and soft/hard.

Gerrard and Cunningham (2003) identifies several bank selection dimensions among undergraduates of Singapore. The study reveals that the most important selection criteria is ‘feeling secure’, while the least important dimensions is ‘third party influence’. The author suggests that the main focus of marketing campaign in banking industry should be on making customers ‘feel secure’, more particularly, emphasizing the bank’s stability and the ‘good’ return on saving accounts.

Gournaris et al (2003) attempts to model the influence of bank-specific parameters and customer specific parameters on the customer’s perception of service quality in Greek banking industry. Service quality has been conceptualized and examined as a multidimensional concepts comprising of employee competence, reliability, innovativeness of the bank’s product, its pricing, the bank’s physical evidence and the convenience of the bank’s branch network. The results reveal that all antecedents of service quality examined in this study do not influence the various dimensions of service quality offered by bank. Moreover, the gravity of influence that each of the examined parameters exercised on the customer’s perception are also found to vary considerably, with certain dimensions being more influenced than others. The study concludes that the banks have to re-shape its culture and behaviour.
Hegazy (1990) compares the bank selection criteria of customers of conventional banks and Islamic banks in Egypt. The selection criteria for both the banks are: ‘the provision of a fast and efficient service’, ‘the banks reputation’, ‘image and confidentiality of the bank’.

Hussein and Al-Amiri (2003) analysed service quality in UAE Islamic banks. It has been found that the dimensions of empathy and the dimensions of tangibles play an important role in overall service quality. The result also indicate that there is significant difference in the level of service quality in the UAE Islamic banks as perceived by customers of different age groups, different education level and different numbers of years dealing with the bank.

Jabnoun and Azaddin (2005) developed a scale to measure service quality in the conventional banks and Islamic banks of UAE. Findings reveal four dimensions namely personal skills, reliability, values and image as important measures of service quality. The study suggests that the bank managers to operationalise and evaluate the service quality in order to retain old customers and attract new ones.

Jhonston (1995) tries to investigate whether there are service quality determinants that are predominantly satisfiers and others that are predominantly dissatisfiers. The study was based on data collected from personal account customers of major UK banks using critical incident technique. The findings reveal that predominantly satisfying determinants are attentiveness, responsiveness and friendliness and the dissatisfiers are integrity, reliability, responsiveness, availability and Functionality. Responsiveness is identified as a crucial determinants of service quality as it is found to be frequent source of satisfaction since lack of it is found to be a major source of dissatisfaction. Contrary to existing literature, the results show that the causes of dissatisfaction are not necessarily the obverse of
causes of satisfaction. Furthermore, reliability is predominantly a source of dissatisfaction and not satisfaction.

Jhonston (1997) categorises quality factors in terms of their relative importance and their effect on satisfaction and dissatisfaction. Responsiveness has been shown to be an important factor determining service quality. This suggests that certain actions, such as increasing the speed of processing information are likely to have an important and positive effect on customer. However, other activities, such as improving the reliability of equipments would lessen dissatisfaction rather than delight customers. Functionality, security, reliability and integrity, although would not lead to delighted customers; are areas where banks can not afford to make mistakes as they are very important to customers and are potentially highly dissatisfying factors. Furthermore, it has been suggested that it is more important to ensure that dissatisfiers should be dealt with before the satisfiers. In the opinion of author, there are two areas where banks can achieve a distinct advantages, namely, genuine commitments and attentiveness by front line staff. Anytime and money, beyond a basic provision are not worth much attention.

Kagnis and Passa (1997) study reports the findings of survey undertaken to establish the extend to which customers of retail banks in Athens (Greece) are influenced in their expectation of quality and in their perceptions of service charges imposed by banks. The results of survey indicate that overall price awareness is related to both higher expectations and higher perceptions of service quality received. Furthermore; price, personnel and physical cues can play an important role in determining service quality in terms of both expectation and perceptions.

Kangis and Vassils (1997) conducted study on service quality perceptions and expectations among customers of public sector and private sector banks in Greece. The findings show that quality expectations and
evaluation of services were marginally higher in the case of private sector banks than in case of public sector banks. The perceptions of service received is different between banks of different sectors, thus suggesting that they deliver a different quality of service. The study suggests the banks to look carefully at each service dimensions where customers perceive receiving a different service than expected by them and should work on minimizing the gap between expectations and perceptions.

Kwan and Hee (1994) attempts to measure service quality in Singapore retail banking industry. Data were collected through SERVQUAL questionnaire. The study finds that the widest gap between perceived performance and expectations in the dimension of empathy. The dimension of tangibles shows the smallest gap between expectations and performance. The study also reveals that the customer’s expectation is highest for reliability. However, the overall service quality rating by the customers was not very high. The author suggests that service quality should be measured periodically so as to identify significant trends in service quality.

Lascar et al (2000) empirically compares the ability of two major service quality constructs to predict level of customer satisfaction in international private banking industry in USA and South America. The study reports that the Technical / Functional Quality Model is more reliable in predicting the level of customer satisfaction than SERVQUAL, thereby suggesting that the two models are unequally or asymmetrically applicable across different settings and situations.

Mishra et al (2000) investigates the service quality perception concerning Financial services among direct users and non-users of Information Technology in the city of Indore. The areas of dissimilarities are information provided by bank, timings of bank, understanding of customer banking needs, employee’s behaviour, fee charged by the bank, type of
service and overall excellence in performance. However, both the groups have similar rating to factors like location, accuracy and concern towards their problems, employee knowledge about the work and complaint responsiveness.

Newman (2001) presents a case study of a pioneering nationwide implementation of SERVQUAL, by major UK high street bank, between 1993 and 1997, at an annual cost of one million pounds. The study raises some practical difficulties entitled in implementation of SERVQUAL. The difficulties are introduced by separation of service quality management from management of marketing and human resources as well as from lack of top management commitment.

Prabhakaran and Satya (2003) attempts to identify various service attributes that form the basis for evaluating the concept of customer satisfaction in the city of Bangalore. The result indicate that the foreign banks seems to be performing well, followed by the private sector bank and public sector banks. According to the author service quality is exhibited through the dimensions of assurance, reliability, tangibility, responsiveness and empathy. The study finds out the relationship between the selected attributes with the help of coefficient of association. The study concludes that there is a fair degree of association between reliability and responsiveness (0.7), reliability and tangibility (0.8), empathy and responsiveness (0.7), empathy and tangibility (0.8), and assurance and reliability (0.9).

Sharma (2002) states that quality of service offered by bank is average based on the study conducted in towns and villages of Punjab. The reasons for dissatisfaction with bank services include lengthy procedures, inefficiency on the part of staff and poor service conditions. The survey reports that people lack banking habits. The customer have little knowledge of services like telephonic transfer of funds, service provided by banks, lockers,
standing instructions, nomination facilities, credit cards, ATM facility, advance on outstation cheques, loans and borrowing facilities of bank. The author suggests that the banks should not only improve the customer service but also make an effort to popularize the various services and facilities offered especially in towns and villages.

Spathis et al (2004) discusses service quality of the Greek banks as perceived by the customers and analyses how perception of service quality, in terms of effectiveness and assurance, access, price, tangibles, service portfolio and reliability differ across gender. Male clients have more positive perception of the service quality than women clients. For men, the dimensions effectiveness and reliability ranked highest with assurance ranked second. For women, price ranked first and access to services ranked second.

Sudir et al (1994) states that customer value time and expect their transactions to be completed as quickly as possible. The author suggests that the inefficiency indicator such as long queues, temporary shutdowns of ATM service, unoperational counters during banking hours, unattended enquires and delays affect the selection of banks.

Sureshchander et al (2003) investigates the critical factors of service quality as perceived by the customers in India. The research compares and contrasts three groups of bank i.e. the public sector banks, the private sector banks the foreign banks with respect to service quality factors from the perspective of the customers. The result of the study indicates that the three groups of banks in India seem to vary significantly in terms of the delivery of the five service quality factors. From the customers perceptions of service quality, the technological factors (i.e. core service and systematization of service delivery) contribute more in differentiating the three sectors; while the people oriented factors (human elements of service delivery) appear to
contribute less to discrimination. The result also indicates that foreign banks are performing well followed by private sector and public sector banks.

Sureshchander et al (2002) proposed a comprehensive model/framework to measure service quality designed with special reference to banking industry.

Survey on the quality of banking services (2000) in banks of Botswana identifies missing services like credit card facilities, long time consumed for process loan request, inadequate performance of ATM’s, inaccurate recording of transaction in case of cheques accounts and inability of banks to process payment on agreed dates.

Verma and Vohra (2000) identify the major factors which determine service quality in banks. The study reveals that out of five important features of service quality, customers are more concerned with the reliability aspect while selecting and patronizing a bank. The SERVQUAL dimensions in descending order of importance to customers of banks are: reliability, responsiveness, assurance, empathy and tangibles.

Wang at al (2002) focuses attention on distinction between service quality and product quality and respective antecedents of service quality and product quality in Chinese context. Both these qualities has its influence on satisfaction and bank reputation. It reports that reliability to be one of the key drivers of product quality.

Yavas et al (1997) states that to deliver high quality services to their external publics banks should not ignore the specific needs of their internal publics, notable their customer-contact employees.
Zhou (2004) states that there is a direct link between dimensions of service quality and customer satisfaction in international settings.

Zineldin (1996) identifies the major attributes which bankers and customer use in determining the overall perception of a bank and service offered by it Swedish commercial banks. Functional quality is an important factor in selecting a bank whereas convenience of location, price and advertising have a minor impact on bank selection.

Zineldin (2002) states that evaluation of the relationship between quality and poisoning requires an understanding and examination of the elements of service quality relative to operational strategy.

Barbara Lewis (1991) in a study in the UK and US banking industry about consumer’s expectations towards banking services, concludes that the respondents were found to have very high expectations of service from their banks across most of the dimensions which were investigated in particular with the respect to reliability elements and honesty an trustworthiness and discretion of contact staff. UK bank customers gave higher ratings to privacy, interior and staff appearances. US respondents were more concerned about locations and parking, opening hours, the number of staff available to serve and personal characteristics of bank staff they came into contact with.

Perceptions of service actually received were very high. US customers were more satisfied with location and parking and UK customers with appearance related to physical features, personal characteristics and banks responsiveness to their need. Meidan (1976) revealed that about 90% of customers banked at the nearest branch. Convenience, in terms of location was found to be single most important factor for selecting a bank.
Berry et al (1980) identifies the most frustrating aspects of bank marketing were lack of management support, lack of interdepartmental cooperation, crisis management, government intrusion and advertising and media problems.

Guesman (1981) viewed that consumer services were perceived as more risky than consumer goods and different means of reducing risk would be used for services than for goods, when risk was perceived. He considered that the intangibility concept was major cause of such risk. So appearance and location of building of the services, act as the major surrogate of the quality of services. Quality of personnel was another important surrogate of such quality.