CHAPTER 2

REVIEW OF LITERATURE
2.1) INTRODUCTION
Before embarking on a research project, review of literature is necessary, to get an overview of what kind of studies have been done previously and what are the gaps in present literature. In academic research, literature review holds a key place because any knowledge gained in research is placed in a total perspective of the existing knowledge and integrated with it (Krishnaswamy et al., 2006). Literature review is the documentation of a comprehensive review of the published and unpublished work from secondary sources of data in the areas of specific interest to the researcher. The purpose of literature review is to ensure that no important variable, that has in the past been found repeatedly to have an impact on the problem, is ignored (Sekaran, 2003). A detailed review of literature is given below. The review of the literature is divided under three heads i.e. insurance, competitive strategy and customer satisfaction. This is done to do justification with all the topics.

2.2) INSURANCE
The insurance and the economic growth of the country mutually influence each other. As the economy grows, the standard of living of people improves and demand for insurance products emerges. A well developed insurance market promotes economic growth by encouraging risk taking. The field of insurance has been extensively researched by various authors. Broadly the research can be classified into six major groups. Most of the studies have explored these topics.

Fig: 2.1
Review of Literature: Insurance
2.2(I) Marketing of Insurance

**Edmunds (1946)**, undertakes to estimate the present and future markets for ordinary life insurance, and emphasises the need for extensive market research on the part of life insurance companies. There is inadequate agent training and low compensation, resulting in a high turnover of agents which leaves many policyholders unserviced, with the consequence of unnecessary life insurance lapses. Ascertaining the causes for these conditions would involve intensive inquiry into the market for life insurance. High turnover and low compensation of agents indicate that too many agents are trying to sell insurance to a segment of the population who has limited purchasing power. The author posits that the job of market research is to find out the number of people who have a given set of needs, to measure the range of income these people possess, and to define the general social relation which binds these people into a group. The job of the agent or salesman is to trace out the social relationship of a market for the purpose of locating the individual purchasers within the market.

**Morrill (1959)** in this article studies that annual life insurance spending is declining for every income group except the highest. Life insurance companies have concentrated on families of above average income, and neglected the mass market. As middle income groups are growing in size and buying power, creativity in the marketing of insurance to this major segment of the population is needed. The author finds that the life insurance business has failed to adopt modern marketing concepts. He suggests a re-evaluation of distribution methods in the light of marketing principles. He suggests certain measures to attract middle class population such as new family coverage policy, change in method of payment, professionalism and new selling methods. He posits that a new marketing orientation is coming about in the insurance field, even though the industry has not yet recognised or defined these developments in marketing terms.

Insurance presents certain marketing problems because the insurance product or service is intangible and it promises only to fill a future need. In this article, **Baker (1961)** discusses some factors which would help in successful marketing of insurance. In order to sell the insurance, marketing man must elicit a certain degree of emotional response from his client.
This emotional involvement should cause the client to feel, act and think as the persuasive underwriter wants. The marketer must develop his ability to analyse his client’s wants, needs, desires, likes and dislikes; he must develop his verbal and other persuasive abilities, including closing techniques. The emotional appeals must be combined with rational appeals. One should stimulate the listener so that he approaches but remains well below his frustration tolerance elation level. Each insurance marketing trainee should receive a full measure of applied psychology and much training designed to enhance written and oral communication abilities, and certainly he should acquire a deep insight into the art of persuasion.

Miner (1961)\(^6\), first of all, defines theory and whether there is theory of marketing of tangible goods and whether this theory is applicable to the marketing of insurance. Researchers have pointed out that marketing is the core of the economic process. He opines that the chief barriers in the path of development of a single theory covering all tangible goods marketing are subject to much confusion. He gives out five principles of micro marketing. These are; marketing is productive; marketing is customer oriented; marketing is dynamic; marketing is for profit and lastly marketing is an integrated complex. Despite the fact that the marketing of insurance does not encompass a number of activities essential to the marketing of tangible goods such as storage and transportation and that there are several other significant differences between the two areas of marketing, these principles would equally be applicable to the marketing of insurance service. The author suggests that marketing equivalents of Research and Development departments should be created and given appropriate status within companies.

As a result of competition explosion in products and pricing, insurance marketing has entered an era of accelerated change. Bickelhaupt (1967)\(^7\) does the re-evaluation of traditional marketing methods in view of such change. More than any other product insurance relies upon sound marketing practices. The control of distribution expenses by insurers is also dependent upon marketing efficiencies, resulting from proper adjustment to changing patterns of consumer needs and desires. He points out that it is not just products and prices which have changed there has been the reappraisal of the methods of marketing insurance. Marketing Insurance is a significant yet widely misunderstood product in today’s economy as
insurance contract is a unique blend of indirect, future, contingent services in connection with risk. Other trends in insurance marketing, in addition to the major marketing channels are product diversification and automation.

Bickley (1967), in this paper studies the insurance market condition and discusses the marketing techniques in the changing environment. The insurance market is characterised by price disparity (price wars, in some cases), low selling costs, low administrative costs, high quality staff, use of computers, etc. In the light of given circumstances a flexible approach to insurance marketing is recognised as essential. The author suggests that distribution channels should be selected depending upon the characteristics of the markets served, the product line offered, and the total resources available to the management. The companies should provide a broader range of financial services. Other measures such as intensified sales efforts, abstinence from advertising price differentials, and moral persuasion on price cutters might be effective. It seems that the increasingly demanding and competitive environment would impose severe strains on many organisations. Insurers unable to match the advances of industry leaders will find corporate existence increasingly difficult, and perhaps impossible.

2.2(2) Demand of Insurance
Mantis and Farmer (1968) in this paper explore the possibilities of making fairly complex multi variable demand forecasts for life insurance sold by utilising readily available published data. The objective behind this experiment is that if a good demand forecast would be made in this manner, insurance companies can have a cheap, quick, yet sophisticated method of estimating demand in advance. The demand forecast presented in the paper uses, as dependent variables the relative price of life insurance; number of marriages; number of births; personal income; population; and employment. All of the dependent variables are widely available and estimated for the near future by many competent forecasters. They estimate that less than one man day of skilled work would be required to make this estimate annually.

With the proliferation of new products and services, as well as new competitors, life insurers must learn about factors that help to attract customers away from their competitors, motivate
current customers to purchase more insurance, and stimulate non consumers to buy their product. Burnett and Palmer (1984)\(^{10}\), in this paper attempt to specify those characteristics that are systematically associated with differences in the amount of life insurance owned, and provide these profiles in respect to several dependent measures, all reflecting the amount of life insurance owned. The study reveals that people who own greater than average amounts of life insurance are self sufficient individuals, who have a lesser belief in the traditional work ethic, are less assertive, prefer quieter activities, and have a relatively lower interest in religion. They are better educated, have larger families, higher incomes, are not opinion leaders, are geographically stable, risk takers, non price conscious, are not information seekers, low in self esteem, are not brand loyal, and believe in community involvement.

Understanding the household’s behavior concerning the desired amounts of various types of insurance can play an important role in anticipating both private and public insurance demands. Showers and Shotick (1994)\(^{11}\) in this article augment the empirical literature on insurance demand by examining the impacts of selected economic and social factors on the purchase of insurance. The results show that an increase in income creates pressure on the family to purchase additional insurance, older households who purchase insurance incur substantially greater premiums due to the higher risks. Households with only one income earner feel less secure than households with two or more earners. The marginal value of the additional burden transformed to insurers, therefore, is greater for single earner households when income rises and an increase in age of the head of the household has a positive influence on a household’s desire for total risk reduction.

2.2(3) Economy and Insurance

Outreville (1990)\(^{12}\) in this article investigate empirically the relationship between insurance premiums written in developing countries and their financial development. The research is based on a recent United Nations survey of insurance and reinsurance operations in developing countries. Recent evidence suggests that the developing countries have a supply leading causality pattern of development. Property liability insurance like other financial services has grown in quantitative importance as part of the general development of financial institutions. This article investigates the relationship between property liability insurance
premiums and economic and financial development. The author analyses the influence of the insurance industry on economic activity from two viewpoints: its role in providing indemnification and its role as an institutional investor and specifies a model for property liability insurance demand.

The life insurance sector is small in many developing countries, because life insurance may be considered irrelevant and inappropriate for ideological, cultural, or religious reasons, or because economic security is provided through the family. Outreville (1996) presents some empirical tests of the relationship between financial development and the development of the life insurance sector and provides empirical evidence of the negative effects of a monopolistic market on life insurance growth. The article shows that life insurance development is significantly related to personal disposable income and the country's level of economic development. Life insurance is also affected by the anticipated level of inflation. Skilled human capital is a source of competitive advantage because industries in developing countries suffer from a major handicap of shortage of skilled personnel.

Life insurance companies play an important part in the financial services sector and life insurance has become an increasingly important part of financial sector over the past years. In this article, Beck and Webb (2003) analyse the determinants of life insurance consumption in a panel of 68 countries for 1961-2000, using four different indicators of life insurance consumption. The results show that economic indicators such as inflation, per capita income and banking sector development and religious and institutional indicators are the most robust predictors of the use of life insurance. Education, life expectancy, the young dependency ratio, and the size of social security system appear to have no robust association with life insurance consumption. The results highlight the importance of price stability and banking sector development in fully realising the savings and investment function of life insurance in the economy.

Hussels et al (2005) provide a discussion of the factors that promote insurance market development. This article acts as a guide to policymakers who are interested in understanding the determinants of insurance demand and how it affects general economic development. The
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A review of empirical literature suggests that a strong, well functioning legal system and a stable political environment is the most crucial factor for insurance demand than economic development and should be regarded as a top priority for policymakers. This is further accompanied by other economic variables that explain insurance consumption, such as national income, an aging population, increased financial development, and low rates of inflation. Property casualty demand can be similarly stimulated by high national income, financial development, and the enforcement of property rights. Other factors to promote insurance demand are exclusion of life insurance premiums from taxation and promoting middle income earners. By encouraging these factors that promote insurance demand and aid financial development, policymakers possess a strong tool to stimulate economic growth.

Zuasti (2008) in this article studies the interaction between insurance and dynamic financial markets. Including financial markets as an integral part of the analysis provides rich insights on the workings of modern insurance markets. He demonstrates this by using a general equilibrium model, where agents not only buy insurance but can also invest in shares of the companies that sell insurance. The analysis starts with setting up of a general model of an economy in which private insurance is available and insurance company shares are traded. The central result shows that in equilibrium, risk averse agents purchase full insurance coverage, despite unfair insurance prices. The three conditions that explain this result are: insurance contracts are priced competitively, financial prices include a risk premium only for undiversifiable risk, and financial markets are effectively complete. An implication is that in this model disasters can be insured by fully assessable stock insurance companies. It also shows that consumers trading in both markets at once use the financial market to diversify their investment portfolio and use the insurance market to insure their personal risk.

2.2(4) International Insurance Market

The worldwide insurance market has grown rapidly and internationalisation of insurance business is becoming widespread, these areas have not been greatly researched. Browne and Kim (1993) identify the factors that lead to the variations in life insurance demand across nations. Important factors affecting demand are dependency ratio, national income, social security provided by government, inflation, education level, average life expectancy, price of
insurance and religion. The findings that life insurance is positively correlated with national income and negatively correlated with inflationary expectations, suggests that economic development and economic stability greatly increase life insurance consumption.

Pearson (1997) in this article surveys the factors determining the pace and timing of innovation in British insurance industry, during the eighteenth and nineteenth centuries. He examines the relevance of existing models of economic innovation and constructs a new model which is more applicable to the long run development of services in an industrialising economy. Then, the relationship between this model and cycles of innovation in British industry is examined in the light of the claims made for the historical dynamism of British financial services. The article concludes by speculating upon a possible link between industrial investment, liquidity, profitability, and insurance innovation during industrialisation.

Zimmerman (1999) in this study concentrates on the insurance industry and on insurance firms’ actions designed to cope with barriers to international trade. While insurance is a critical worldwide service, the industry is significantly under performing when compared to other services. One reason for this may be the trade barriers erected by governments throughout the world to hinder foreign insurers in their attempts to enter markets. He finds that there are 26 barriers to insurance trade, which are discriminatory against foreign insurers. The major finding of this study is that trade barriers are one of several factors managers evaluate in deciding whether to enter a market. Respondents feel that barriers can become a critical factor if they create prohibitive costs or difficulties for the firm’s entry. A new market entry decision model has been proposed based on the findings. Once a market is chosen for entry, the difficulties faced are assessed and actions to overcome these difficulties are undertaken, but most do not expect quick results from these actions.

Chen and Wong (2004) focus on the solvency of general and life insurance companies in four regions of Asia (Malaysia, Singapore, Taiwan, Japan) using firm data and macro data separately. For general insurers, firm size and investment performance significantly affect financial health, for life insurers, firm size and change in asset mix play an important part. As
the insurance industry in different Asian regions is at different stages of development, they require different regulatory guidelines. It is also important to have different regulations for life/health and general insurance companies (even for the same economy), as each operates under different constraints and requires more specific management and regulatory structures.

Barkur et al. (2007) study the influence of five critical factors on service quality in the insurance sector. As globalisation and IT revolution have made the insurance sector highly knowledge intensive, customer expectations and perceptions have also grown exponentially. The research is based on system dynamics methodology, which involves sequential phases including: problem identification, conceptualisation, model formulation, simulation and validation, and policy analysis and implementation. Meta analysis of existing literature and rationalisation are also a part of the framework development. The results of this research have indicated that the key parameters, e.g. past experience, personal needs, external communication, word of mouth, and active clients have significant influence on service quality of the insurance sector. This research is unique in the sense that it uses a system dynamics approach to service quality enhancement in the insurance sector.

Cummins and Venard (2008) study the global insurance market which has changed radically in the past twenty years. The purpose of this article is to analyse the effect of globalisation on international insurance markets, evaluate the advantages and disadvantages of globalisation and the focus is to highlight the global similarities of national insurance markets and the local contingencies that create differences among markets. Although important global trends are reshaping insurance markets, the emphasis on globalisation overlooks the local diversity of insurance markets worldwide. Among the important global trends, are the increasing sophistication of insurance products, the globalisation of risk diversification through reinsurance, the emergence of mega financial intermediaries, and the growing importance of agencies such as the World Bank and the World Trade Organisation (WTO). On the other hand, there remains significant heterogeneity among countries and regions that has a profound impact on insurance markets. Among the important local differences are political, legal, and cultural components as well as differences in financial
Ma and Pope (2008) in this article test the applicability of the structure conduct performance (SCP) hypothesis in the international nonlife insurance marketplace. The SCP hypothesis expects dominant firms in more concentrated markets to set prices that are less favorable to consumers because of imperfect competition. Subsequently, smaller competitors in the market are able to adopt similar excessive pricing strategies resulting in an overall increase in industry profitability. The articles studies 23 nations (developed and developing countries). The results reveal that the effect of market concentration on insurance market profitability varies depending on the level of market liberalisation. The interaction of market liberalisation and market concentration shares a complex relationship with market profitability. The results show that the expectations associated with the SCP hypothesis are supported when the levels of liberalisation are low, high barriers to entry for foreign competitors facilitate the ability of a concentrated marketplace to engage in collusive behavior. However, for markets that are highly liberalised, the presence of foreign insurers significantly alters the dynamics of nonlife insurance markets.

Ma and Pope (2008) investigate the relationship shared by foreign market characteristics and the participation of international life insurers in those markets. They develop a profile of foreign national market characteristics that attract international life insurer participation and empirically assess the value that international participation has to the host market. Although the authors focus on the countries of the OECD, they opine that the results should have significance for the policymakers of the emerging markets. The analysis reveals that the characteristics that are found to be statistically significant with respect to international participation include high levels of trade liberalisation and/or low insurer market share concentration, high levels of national wealth, and high levels of government expenditure on social security retirement benefits. The results also show that international insurers’ participation in a market has positive influences on a country’s insurance penetration and density. The empirical results imply that a strong presence of international insurers may
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enhance the importance of the insurance industry and increase the demand for insurance products within a given national market.

Recent years have seen a rapid growth in global trade, Foreign Direct Investment (FDI), and portfolio investment in the services sector. Outreville (2008) studies the international diversification of successful insurance companies. This article has two objectives, the first is the documentation of the relative importance of the largest insurance or reinsurance companies in the world and changes that may have occurred in the past 15 years and the second objective is to identify the most favored locations for these insurers and determine some of the factors that may explain the choice of these locations. The results of this study have important implications. First, the results indicate that location specific advantages such as size, education, regulatory barriers, competitiveness, and cultural distance do provide an explication of the internationalisation of insurance firms in some locations. Second, they show that good governance has a strong impact on the choice of countries by insurance firms. Due to the lack of data availability for several countries, other factors such as the legal and accounting environment have been excluded.

2.2(5) Insurance Intermediaries

Axelson (1927) gives an unprejudiced picture of the opportunities that the selling of life insurance affords and the qualities an insurance agent should possess. The qualities which an agent should possess are self confidence, pleasing personality, forceful and aggressive, good health, good technical knowledge of the business, mentally alert and resourceful and above all he must be a person of good character. Those without these qualifications may enjoy temporary, but not permanent success. The author finds this job is very good for those young men just out of college who are honest, clean cut, and industrious, and those having leadership qualities. Regarding the practical or financial returns he says that the first year will be hard, the second year will be a fifty fifty proposition and by the third year the agent will come to the conclusion that he is in a wonderful business, where agent’s time will be his own and where remuneration is in direct proportion to the amount of energy spent in an intelligent manner. The business has few great advantages too.
The marketing innovations represent efforts to differentiate the offering of one company from those of others and thereby increase the innovator’s market share. Peterson et al. (1972) study the effect of marketing innovations in the life insurance sector. The results show that flow of innovation is a two-step flow i.e. it flows from innovator firms to large firms in the industry and then to others. There is no relationship between earliness of adoption and sales growth. Therefore many firms seek sales growth by improving their distribution channels. The relative advantage of innovating firms is short lived when the offering is unprotectable. Therefore future research on diffusion of competitive innovation among sellers must consider industry characteristics such as “ability to protect innovations.”

This article treats the complex issue of measurement and then proceeds to compare the service performance of independent insurance agents and of sole representatives of direct writers. Etgar (1976) examines whether the independent agents provide better service to their customers than sole representatives of direct writers. The major conclusion to be drawn from the study is that the hypothesis that the independent agents will always provide better service to their clients is not supported. Results of the survey of a sample of both types of insurance agents indicate that even though the former apparently excel on some service dimensions (assistance in claim handling), the latter perform as well as or even better than the independent agents on other dimensions (assistance in risk analysis, assistance in placing insurance applications). Therefore, one may conclude that the traditional view of all independent insurance agents competing on the basis of service and of all exclusive agents competing mainly on the basis of lower price is incorrect.

Agent work commitment is an important issue to the insurance industry because of the difficulty and costs associated with attracting and retaining productive agents. McElroy et al. (1993) examine the effects of commitment, separately and interactively, on the attitudes and behaviours of insurance agents. The authors study how three forms of commitment: job involvement, professional commitment, and community commitment are related to job perceptions, attitudes, and performance. Results indicate that job involvement significantly affect perceptions of task variety and task significance, satisfaction with work and pay, and one’s attitude toward remaining in the insurance profession. Agents highly involved in their
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jobs reported significantly higher levels of job satisfaction and satisfaction with pay. Agents with higher levels of job involvement and professional commitment exhibit a stronger intent to remain in the profession.

To remain competitive in a deregulated industry in which many financial services providers have entered, insurance companies and their sales representatives have to reevaluate their training methods of attracting and keeping customers. Joseph et al (2003) attempt to study those local agents attributes that customers perceive as being the most fundamental in establishing and maintaining the crucial long term agent/ client relationship that ultimately help increase profitability. The model is based on the agent’s ability to deliver on factors related to service quality. Although service quality has been given top priority by service oriented corporations, ill trained employees not convinced of the superiority of the service themselves are routinely placed in the direct contact with the customers, resulting in increased customer complaints about the gap between expected service performance and what is actually delivered. The results show that local independent agencies and their agents are not at competitive disadvantage when it comes to maintaining a position in the insurance sales industry. Customer wants constant communication with their agents and agents should be trained periodically.

2.2(6) Effect of Gender on Insurance Ownership

Differences in life insurance premium expenditures among households are of interest because of their implications regarding the life insurance industry’s effectiveness and potential. Hammond et al (1967), in this paper attempt to specify and identify those factors which are associated with differences in life insurance premium expenditures by households and which explain the variations in premium expenditures, and provide estimates of the income elasticity of life insurance. The general regression model examined in this study considers life insurance premium expenditures by a household to be a function of its income, net worth, and life cycle state and of the age, race, occupation, and education of the head of the family. The results show that income, net worth holdings, stage in the life cycle of the household and education and occupation of the household head are generally determined to be significantly related to premium expenditures.
Anderson and Nevin (1975) examine the life insurance purchasing behavior of young newly married couples. The authors test the relationship between two dependent variables, amount of life insurance purchased and type of life insurance purchased, against a number of explanatory variables. The variables which affect the amount of life insurance purchased are education of husband, current household income, expected household income, net worth of household, husband’s insurance before marriage, and wife’s insurance before marriage. The purchase of a larger than average amount of life insurance is more likely in households where: (1) the husband did not attend college, (2) current and expected household incomes are in the low and high ranges, (3) greater net worth, (4) the husband had purchased no life insurance before marriage, and (5) the wife had purchased term insurance before marriage. The purchase of term insurance was found to be much more likely in households where: (1) the net worth was greater, (2) the wife purchased term insurance before marriage, and (3) the insurance agent did not influence the decision.

Burnett and Palmer (1983), in this study attempt to identify demographic and behavioral characteristics that distinguish life insurance consumers who have an agent on whom they rely in insurance purchasing decisions in contrast to those individuals who do not. The results suggest that life insurance consumers who have an agent on whom they rely (in life insurance purchasing decisions) tend to have larger amounts of life insurance, consider insurance to be very important, are younger, tend to be female, are concerned with their health, are not opinion leaders, and are single. It might be tentatively concluded that these personal insecurities are the primary motivations for employing an insurance agent. In contrast, individuals who do not have one agent are possibly family men who are confident in their ability to provide for themselves, perhaps because of their secure personality make up (i.e., opinion leader). These people tend to be older.

Fitzgerald (1987) develops a utility maximising model of a married couple choosing the amount of life insurance they want on each of the earners. Members of a household can share risks, so that the potential future earnings of one spouse can reduce the need for life insurance on the other. Social security survivor benefits are found to decrease the demand for life insurance on an earner, while social security benefits that are conditional on the earner’s
survival increase the demand i.e. survivor benefits diminish the demand for life insurance, while retirement benefits increase it. The findings suggest that households do not view wife’s earning capacity as a replacement for life insurance on the husband. Husband and wife’s future earnings are found to increase the demand for insurance on husband’s life.

Gandolfi and Miners (1996)\textsuperscript{35} in this article estimate the influence of income and the value of household production on the amount of separate life insurance purchases for both husbands and wives, and investigate whether the response of life insurance purchases to these two key motives differs by gender. The results indicate that there are meaningful differences between husbands’ and wives’ demand for life insurance functions. Although money income is the most significant determinant of life insurance holdings for both husbands and wives, there is evidence that contributions to household production also influence the purchase of life insurance. Age of spouse is not significant for husbands or wives, but the educational level of the spouse has a negative impact on the husband’s total life insurance coverage, greater education of the wife tends to decrease insurance on the husband. Even among husband wife pairs where attitude toward life insurance and other (unquantifiable) factors can be assumed constant, wives have much lower life insurance than their husbands.

Saibaba \textit{et al} (2002)\textsuperscript{36} study the perception and attitude of women towards life insurance policies. Women are coming forward to take a larger place in the whole business structure. Nowadays many insurance companies are trying hard to woo the female population. The insurance companies not only provide economic independence, but also avoid risk of life. The study finds that women feel that their lives are not as valuable as their husbands, they perceive insurance as a tool for risk coverage and not as a tax saving device, there is also lack of knowledge about suitable insurance plans.

\textbf{2.2(7) Strategies}

Pfeffer (1965)\textsuperscript{37} in this study makes an effort to measure the profit potential of the new life insurance companies. New company, for his study is the one which has been in existence for less than five years. He finds out that many new companies are formed for short term speculative reasons. The five types of strategies available to new companies are: grandfather
strategy; hit and run; captive; brokerage; and traditional strategy. Although the evaluation of profit potential in case of new companies is practically impossible due to various reasons such as paucity of useful published data about the actual performance, it is concluded that out of many entrants, only a few are capable of doing business in the long run.

**Meidan (1982)** presents different marketing strategies for insurers, suggesting that the selection of an appropriate strategy should be based on the internal conditions and external forces facing the firm. Effective selling of insurance policies depends to a large extent on the marketing strategies selected. The two broad categories of insurance marketing strategies exist: growth strategies; and competitive marketing strategies. The marketing mix should be planned accordingly after giving due consideration to the external forces. Due attention should be given to the marketing organisational structure and its departmental responsibilities. The study suggests several alternative control systems that might enable insurers to evaluate the performance of selected marketing strategy.

**Sharma and Agarwal (2005)** discuss the insurance sector in India in the pre-nationalisation era, post nationalisation era, post liberalisation era and emerging scenario. To be more competitive and responsive to the needs of the societies, the insurance players would be required to concentrate on the various strategies viz. environmental analysis, restructuring organisations, human resource development, efficient marketing strategies, distribution channels and corporate governance. The opportunities for companies and people are; untapped markets, multiplicity of products, growth of economy and financial sector and better customer service.

**Vanniarajan et al (2006)** focus on the strategies needed in different Indian insurance market segments. After liberalisation, the new insurance companies were successful in creating the mind share of the people through aggressive marketing strategies but the critical factor for success would be marketing strategy to the targeted market segment, the differentiation is essential among the market players. The authors classify market into four segment urban fixed income group (UFIG), urban business income group (UBIG), rural fixed income group (RFIG) and rural business income group (RBIG). Based on this segmentation
the strategies suggested are; the ‘product oriented’ strategy should be implemented among the UBIG, ‘service oriented’ strategy for RBIG; the ‘distribution oriented’ strategy for UB1G and UBIG while ‘promotion oriented’ strategy will be successful among for UFIG.

2.2(8) Miscellaneous

Belth (1966) examines whether there is price competition in life insurance market, through the analysis of some life insurance price data. Firstly, the author distinguishes between “premium” and “price”; then ponders over problem of price measurement in life insurance and lastly effectiveness of price competition in life insurance. Price analysis of a life insurance policy involves complexities that place price analysis beyond the reach of the average buyer and even beyond the reach of the fairly sophisticated buyer. In the author’s opinion, the solution to the problem lies in the development of a rigorous system of price disclosure that would make it possible for careful buyers of life insurance to obtain enough price information to permit them to make reasonably informed purchase decisions. Price information is so vital in the marketplace and is so fundamental in a company’s operations that some of the most serious problems facing the life insurance business may stem directly or indirectly from inadequate price disclosure. Price disclosure is important not only to the buying public but also to the life insurance business.

Fey (1971), in this research paper reviews the problems of social responsibility and seeks to define those problems. While the insurance industry has been oriented towards social responsibility and the public interest, the nature of its current role has been altered by changes which are occurring in socio economic systems. The author postulates that every company has two major tasks. The first is to identify and evaluate social needs as they impact upon its operation and the second is to determine the nature and extent of involvement appropriate for that business. The problems faced by insurance companies are; the failure of insurance salesmen and providing services for new and unmet needs. Fey suggests that improved education, effective communication, healthy competition, better products and services and cost disclosure will be helpful in overcoming these problems. For social responsibility he gives out that businesses should recognise and develop sensitivity towards
social responsibility and use the capabilities and resources in an accountable manner, in cooperation with other companies and groups, and the government.

**Schlesinger and Doherty (1985)** present a non-technical overview of the incomplete market theory in the context of insurance. Incompleteness is said to exist when insurance contracts do not exist for all risks facing an individual or a firm. In such a market, insurance decisions cannot be made myopically and must recognize the presence of uninsurable background risk. The review of literature shows that an increase in the risk averseness of the insured does not guarantee the purchase of a higher level of insurance coverage if markets are not complete. The authors examine the way in which market incompleteness may invalidate some long-standing theoretical results.

In the market for life insurance, individuals face many product alternatives, however, little guidance is provided in product selection other than basic descriptions of plan benefits and costs. While objective criteria are important to the purchase decision, an individual’s subjective valuation of all criteria, objective and subjective, plays the pivotal role. **Puelz (1991)** suggests a decision model that integrates an individual’s objectives and constraints with respect to the choice of the best life insurance product. He presents a multi-attribute life insurance contract choice model to assist an individual in the problem of choosing the optimal life insurance contract conditional upon the preference set of the individual. Four criteria i.e. net payment index, contractual flexibility, strength of insurer and cash value accumulation are used to illustrate the operation of the decision model demonstrated in this article. However, the analytic hierarchy process is sufficiently flexible to allow other criteria to influence another individual’s optimal life insurance contract selection.

**Townsend (1994)** in this paper poses a question, how good or bad are the institutions which might insure people in villages against erratic rainfall, crop and human diseases, and severe income fluctuations? The potential risk-bearing institutions he evaluates are; diversification of a given farmer’s land holdings into various spatially separated plots and into various crops, storage of grain, borrowing from village lenders and, gifts and transfers in family networks. He tests full insurance model using data from three poor, high risk villages.
in the semi arid tropics of southern India which are primarily agrarian economies with high risk. His model incorporates a number of salient features of the actual village economies. The results suggest that landless and small farmers are more vulnerable to idiosyncratic shocks. This paper presents a general equilibrium framework which overcomes the problem of looking at risk sharing markets or institutions one at a time. Specifically, the general equilibrium model inevitably leads the researcher to focus on outcomes, namely, consumption and labor supply, so that all actual institutions of any kind are jointly evaluated.

Santomero (1997) studies the foothold of insurance companies and gives out some suggestions for their survival and growth in the present circumstances. The past two decades have ushered in a revolution in the nature of financial institutions. The traditional distinctions between depository institutions, investment banks, insurers, investment companies, pensions, and mutual funds have virtually disappeared. This has resulted in increased competition. Meanwhile, life insurance products are seen by more and more consumers as closely related to other savings products and must compete on their terms. To compete in this new world order is not an easy task. The author suggests that the operating costs, must be constrained; efficient intermediation services should be provided; industry must develop the skills and systems to achieve an efficient risk management capability and efficiently priced financial products should be offered.

In India, most of the losses suffered in natural disaster are not covered under insurance due to various reasons in spite of the fact that Indian subcontinent is among the world’s most disaster prone areas. Atmanand (2003) attempts to fill the gap in studies on the role of the insurance sector in disaster management. The article studies the role of LIC and GIC in providing cover for natural calamities and the policies available. The state also has to play an active role in ensuring that coverage and benefits offered by insurance companies are harnessed for the common benefit of the masses while professionalism and solvency of the insurance companies is preserved. The author gives five principles of models of disaster insurance and new approaches to insurance using index and area based contracts to insure natural disaster.
Reddy (2005), in this article studies the customer perception towards life insurance companies’ policies. His objectives of the study are; to know customer opinions on whether insurance policies of private companies are better alternative of public insurance policies or not. The results are that, majority of respondents feel that policies offered by private companies are up to their expectations but when compared with public companies’ policies very few policies are better alternatives. They feel there are hidden costs in the policies of both companies, private and public. Most of them feel there is no risk and no need to worry about the security of their money since all the private insurance companies are under the regulation of IRDA. Respondents prefer tax benefit most, followed by value added policies.

Life insurance policy is an appropriate financial tool to mitigate the financial risk of untimely death. However selecting the type of policy is a very complex decision. In the current Indian insurance market, this choice is difficult for three reasons: inherent complexity due to uncertainty and long time horizons; the need to compare a plethora of different types of products from competing insurance companies; and most insurance policies bundle pure insurance with savings to offer composite products. In this paper, Rajagopalan (2006) does a comparative evaluation of the traditional insurance policies available in the Indian market from a consumer perspective. He suggests that, it is better for an individual to buy the cheapest term insurance for the required amount of death protection and term. In case of endowment policy, instead of buying non participating endowment policy, it is better to invest the extra premium in a PPF account.

Sen and Madheswaran (2006), in this paper attempt to predict the possible structure of the Indian life insurance industry after it went through structural reorganisation in 1999. The authors use econometric analysis to select the best measure of concentration from a set of eight concentration ratios of largest firms and Herfindahl index. The analysis is done separately for life as well as non life segment. The results suggest that although Indian market is one of the cherished destinations for many successful global insurers but at present public sector insurance companies are enjoying the lion’s share of market. The article suggests, there exists a monopolistic structure on the assumption that all the firms are selling
homogeneous insurance policies. However, even if heterogeneity is assumed the scenario will remain the same as IRDA closely monitors the products and pricing.

Insurance basis represents the unintended mismatch between insurance coverage and losses incurred for which the policyholder believes coverage should exist. Kerr (2006)\textsuperscript{51} takes a detailed look at insurance basis risk and finds that subjectivity plays a prominent role in its definition. The fundamental idea of basis as defined in the finance literature can be applied to insurance contracts as the difference between the loss incurred by the policyholder and the indemnity actually paid out for that loss under the insurance contract. The greater the policyholder expectation in terms of insurance contract performance, the greater the insurance basis risk may be if performance fails. This expectation is likely to change, either up or down, during the life of the insurance claim depending on the amount and nature of information or coverage advice received by the policyholder concerning the scope of the insurance contract.

Rajesham and Rajender (2006)\textsuperscript{52} also discuss the changing scenario of the Indian insurance sector. This paper highlights the developments of insurance sector in a phased manner and examines the reasons for the entry of private and foreign players. It also attempts to examine the growth of Indian insurance sector during the pre and post liberalisation period and suggest the strategies and challenges that need to be adopted by Indian insurance sector in the light of global scenario so as to enhance its market share. They point out the challenges as; increasing India’s share in the global insurance market, to have qualified, skilled actuaries, penetration in rural markets, developing customised policy for clients etc.

2.3) COMPETITIVE STRATEGY
Since the origins of business policy fields in 1950s, researchers have concerned themselves with the attributes and impact of strategic planning, and this concern increased with the expansion of modern strategic management research. Competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm’s activities that can contribute to its performance, such as innovations, a cohesive culture, or good
implementation. A lot of work has been done by different authors in the field of competitive advantage and competitive strategy. The major ones are discussed below:

**Fig: 2.2**

**Review of Literature: Competitive Strategy**

![Diagram of Competitive Strategy Model](image)

### 2.3(1) Generic Strategies Model

**Porter (1980)** states that competitive analysis is important not only in formulation of business strategy but also in corporate finance, marketing, security analysis and many other areas of business. He presents an analytical framework for understanding industries and competitors, and formulating an overall competitive strategy. He describes the five competitive forces that determine the attractiveness of an industry and their underlying causes, as well as how these forces change over time. Porter also identifies three fundamental competitive strategies and lays out the required skills and resources, organizational elements and risks associated with each strategy. These strategies are overall cost leadership, differentiation and focus.

**Harrigan (1981)**, in this paper studies the relationships between the difficulty of entry and competitive strategies in five industries, which have different structural contexts. It constructs measures of the height of entry barriers and assesses the influences of these
structural forces upon competition as well as ease of new entry. An entering firm would be better prepared for the retaliation it encounters upon entry if it understood the nature of these barriers and the forms retaliation might assume. This study finds that the conditions of excess capacity and a history of price cutting are formidable deterrents to entry. The author also suggests that firms could further barricade their portals by investing in R&D effectively to increase technological scale economies within their respective industries or to force the ongoing industry context to evolve in a manner which would make subsequent attempts at entry even more ineffectual.

Varadarajan (1985), in this paper focuses on the appropriateness of a two factor classification of competitive strategy variables as success producers and failure preventers. The appropriateness of a two factor classification of competitive strategy variables can be addressed at three different levels of strategy; the corporate, the business unit, and the functional strategy level. The author utilises the PIMS (Profit Impact of Market Strategy) data on relative market share and nine marketing strategy variables for the purposes of empirical exposition. The major managerial implications of the proposed two factor classification pertain to assigning strategic missions and allocating resources among various competitive strategy variables. The author posits that, in an increasingly resource constrained and intensely competitive environment, firms need constantly to improve the strategy formulation process and evaluate strategy effectiveness at various levels.

In this article Wright (1987) makes several refinements to Porter’s ideas. Drawing from contributions of diverse disciplines, Porter has formulated a set of generic strategies; these are cost leadership, differentiation, and focus strategies. In this paper an attempt is made to refine Porter’s treatment of generic strategies in four areas. The first area is a point of clarification, which deals with the subject of parameters of generic strategy choice. The second area it involves the issue of competing with only one strategy in isolation of other strategies. The third area includes his discussion of the focus strategy, and the fourth area encompasses the relationship of generic strategies with that of return on investment. Murray (1988) opines that Porter’s generic strategy concept does not satisfy the desire for a solid theoretical framework and it is confusing. It does not explain specifically how any of
the generic strategies should be implemented. According to Porter, cost leadership and product differentiation can be pursued simultaneously only under rare conditions. In this article Porter’s generic strategies are linked to external preconditions and a contingency approach is suggested as a way to overcome these weaknesses. This approach shows that the generic strategies are not mutually exclusive. External factors dictate a set of strategic means which may include components aimed at reducing costs, raising revenues through product differentiation, or both. Therefore, it is important to build models linking external factors with appropriate internal responses.

Zajac and Shortell (1989)\textsuperscript{58} argue for greater research attention to the issue of changing generic strategies over time. The study proposes two sources of theoretical tension relating to changing strategies: (1) the notion of equally viable generic strategies versus the notion of particularly appropriate strategy/environment combinations, and (2) the relative influence of strategy process issues. This study focuses on the dramatic environmental shift experienced in the health care industry and identifies organisational responses involving changes in generic strategies. The results of this study suggest that organisations do change their strategies in response to major environmental shifts; the impact of a specific major environmental shift can influence changes in strategy in a non random way, with organisations moving away from one generic strategy and towards other generic strategies.

In this paper Lindahl and Beyers (1999)\textsuperscript{59} focus on how competitive advantage is constructed by producer service businesses, how it varies among establishments with different characteristics, and how it affects firm’s performance. The authors present a detailed evaluation of the competitive advantage model developed by Porter (1990) and review applications of this model to the producer services. They find Porter’s model to be partially successful in distinguishing between superior and inferior performance by producer service businesses, with important differences observed across age, organisational type, and size of business. Then they propose a modified version of the framework, stemming from empirical results, which includes not only factors contained in the Porter model, but dimensions particular to the information oriented producer services, such as creativity, geographic proximity, R&D capabilities, and adaptability to client needs. The authors
conclude that stuck firms are not inferior and in this segment of the economy, where cost based sources of competitive advantage are few, establishments pursue differentiation based strategies in a variety of ways to achieve superior performance.

It has been argued that a firm’s capacity to learn from its market is a source of both innovation and competitive advantage. Weerawardena (2003)\textsuperscript{60}, in this paper explores the role of market focused learning capability in organisational innovation based competitive strategy. He develops and refines measures of entrepreneurship, market focused learning capability, organisational innovation and sustained competitive advantage and tests relationships among these constructs. The findings suggest that market focused learning capability enables firms to pursue both technological (product and process) and non technological (marketing and organisational systems) innovations; entrepreneurial intensity is an important determinant of the capability building activity of the firm and firms striving to gain competitive advantage must build and nurture distinctive market focused learning capabilities. In addition to its empirical contribution, this research focuses the attention of researchers and managers on the crucial role that strategic leadership plays in developing market focused learning capabilities in shaping the firm’s competitive position.

2.3(2) Scope of Competitive Strategies/ Advantage

The purpose of competitive strategy is to achieve a sustainable competitive advantage and thereby enhance a business’s performance. Bharadwaj \textit{et al} (1993)\textsuperscript{61} focus on the distinctive organisational skills and resources underlying sustainable competitive advantage (SCA) in service industries and the moderating effects of the characteristics of services, service industries, and firms within an industry on the skills and resources underlying a business’s competitive positional advantages. The proposed conceptual model of SCA provides insights into moderating effects of the characteristics of services, service industries, and firms within an industry on the skills and resources underlying a service business’s competitive positional advantage. The sources of SCA as per the authors are: scale effects; cost and demand synergies; product, process and managerial innovations, brand equity, spatial preemption, corporate culture, information technology etc.
Researchers view that all organisations, whether sacred or secular, require resources. Miller (2002), in this study brings theoretical perspectives from strategic management together with those of sociology and economics to understand the organisational and competitive aspects of religion. The author views that the organisational features and strategies of religious organisations can be identified by recognising their resource requirements. This study highlights several aspects of religious organisations that set them apart from the business organisations that are typically the focus of strategic management research. Miller elaborates specific strategic management issues arising in religious organisations. Resource based and institutional perspectives provide a foundation for analysing the sources of sustainable competitive advantage among religious organisations. The latter portion of this article shifts to the industry level of analysis and examines the roles of political strategies and strategic alliances in shaping religious competition. This theoretical discussion generates testable propositions regarding the competitive strategies of religious organisations and opens opportunities for future research.

Devlin (2001), in this paper formulates a research agenda in the area of consumer evaluation and competitive advantage in retail financial services markets. Factors affecting the degree of consumer understanding of service offerings has been explored and the implications for competitive marketing strategy has been analysed. The process of consumer evaluation of financial services offerings is then reviewed and potential problems in consumer understanding of some types of financial services offerings are highlighted. The implications of such problems for the formulation of value adding strategies are explored with reference to the conceptualisation of the financial service offering and in particular which elements of the offering may be particularly important in adding value in the eyes of consumers. Finally, propositions for research are developed and explored, with the aim of informing both academics and practitioners.

2.3(3) Sources of Competitive Advantage

Prahalad and Hamel (1990) give the concept of core competency in this article. Instead of doing all types of businesses, a company should focus on those activities only in which it can perform better than its competitors. Core competencies are the collective learning in the
organisation, especially how to coordinate diverse production skills and integrate multiple streams of technologies. They discuss three tests to identify the core competencies in a company.

Sustainable competitive advantage results from the possession of relevant capability differentials. Hall (1992)\(^6\) formulates a framework of intangible resources which formed the basis for a national survey of chief executives. Some of the significant findings of the survey are that; company reputation, product reputation, and employee know how are perceived as the resources which make the most important contribution to business success and they have considerable significance with respect to the sustainability of advantage. For most companies operations is the most important area of employee know how. This article argues, by means of both theoretical reasoning and empirical evidence, that the analysis of intangible resources should play a major role in the strategic management process and the author traces the linkage between competitive advantage, capability differentials and intangible resources.

Powell (1992)\(^6\) reevaluates the planning performance relationship from a resource perspective, arguing that strategic planning does not satisfy the criteria for sustainable competitive advantage. Although it may produce economic value, it is easily imitated and may be substitutable. The article suggests that previous studies produced inconsistent results because they did not account for the dissemination of the strategic planning over time, or for industry differences in strategic planning factor markets. Powell provides theoretical approach based on the resource view of the firm and describes an empirical trial based on this perspective. An important contribution of this study is its linkage of strategy process with strategic content.

Barney and Hansen (1994)\(^7\), posit that in economic exchanges trust can be a source of competitive advantage. They identify three types of trust in economic exchanges: weak form trust, semi strong form trust and strong form trust. However, trust is not always a source of competitive advantage. Weak form trust is only a competitive advantage when competitors invest in unnecessary and costly governance mechanisms. Semi strong form trust is a source of competitive advantage when a small number of competitors have special skills and
Review of Literature

abilities which are immune from low cost imitation. Strong form trust is a source of competitive advantage when two or more strong form trustworthy individuals or firms engage in an exchange, when such trustworthiness is relatively rare, and when the attributes that lead to trustworhiness can not be copied. This paper rejects assumptions that all exchange partners are likely to engage in opportunistic behavior and it is not possible to know how opportunistic a particular exchange partner can be. Rather, it says that the trustworthiness of exchange partners can vary, and that how trustworthy an exchange partner is can be discovered. The adoption of this approach leads to the conclusion that, in some circumstances, trust can be a source of competitive advantage.

Vyas (1999) proposes the concept of customer satisfaction as core competence. It is not enough to be just product driven or technology driven. Customer satisfaction is growing concern among Indian businesses because of increasing education, information and consumer awareness demanding worth and better value for money. Customer satisfaction is quickly becoming the key to competitive posture within a category or industry. It is the next most likely business strategy. The author proposes that increased customer satisfaction will increase profitability and market share. The benefits of customer satisfaction spreads to all; customers, sales, employees and managers. Customers get better services and products, sales improve by way of increased revenue and reduced attrition, employees benefit through recognition and awards and managers benefit as they can recruit better people and manage budget according to priorities.

Organisations often seek to gain a competitive edge over its competitors. Research shows that there is shortage of funds, the most effective use of training investment is on frontline personnel because they are the ones who are in direct contact with customers. Prager (2003) studies a large multinational organisation which achieved competitive advantage by developing a customer service representative certificate programme. When all the companies have similar technology and equipment, the key to a company’s success are skilled customer service representatives. The competencies critical to corporate social responsibility includes communication skills, good team working ability, self management, problem solving, negotiating ability, presentation skills etc.
2.3(4) Resource Based View

For the firm, resources and products are two sides of the same coin. Most products require the services of several resources and most resources can be used in several products. By specifying the size of the firm’s activity in different product markets, it is possible to infer the minimum necessary resource commitments. Conversely, by specifying a resource profile for a firm, it is possible to find the optimal product market activities. Wernerfelt (1984) develops some simple economic tools for analysing a firm’s resource position from the resource side rather than from the product side. This perspective would throw a different light on strategic options, especially those open to diversified firms. In analogy to entry barriers and growth share matrices, the author suggests concepts of resource position barrier and resource product matrices and uses these tools to highlight the new strategic options which emerge from the resource perspective.

Peteraf (1993), in this paper develops a general model of resources and firm performance which at once integrates the various strands of research and provides a common ground from which further work can proceed. There are four theoretical conditions which underlie competitive advantage, all of which must be met in the model. These are: superior resources (heterogeneity within an industry), ex post limits to competition, imperfect resource mobility, and ex ante limits to competition. This model is intended to highlight the importance of each of these conditions, as distinct from one another, and to explain the particular role that each plays in creating and sustaining rents. It does not imply that these four conditions are entirely independent of one another. They are related conditions with heterogeneity as the most basic condition. The model reveals that heterogeneity is necessary for sustainable advantage, but not sufficient. Finally, it is important to recognise that the productivity of superior resources depends upon the nature of their employment and the skill with which a strategy based on resource superiority is implemented.

Oliver (1997) suggests that the context and process of resource selection have an important influence on firm heterogeneity and sustainable competitive advantage. He argues that a firm’s sustainable advantage depends on its ability to manage the institutional context of its resource decisions. The purpose of this paper is to provide a model of firm heterogeneity and
sustainable advantage that incorporates the social context of resource selection. For this, he combines the resource based view with insights from the new institutionalism in organisation theory. Normative rationality, institutional isolating mechanisms, and institutional sources of firm homogeneity are proposed as determinants of rent potential that complement and extend resource based explanations of firm variation and sustainable competitive advantage. The article suggests that both resource capital and institutional capital are indispensable to sustainable competitive advantage.

Chaharbaghi and Lynch (1999) find out that the search for sustainable competitive advantage has been the dominant theme in the study of strategy for many years. This paper introduces the concept of strategic advantage and distinguishes it from competitive advantage. The term strategic advantage is used to describe an organisation’s dynamic and unique resources that determine its competitive renewal. The aim should be to develop new resources that lead to new performance standards and hence the establishment of new business opportunities. This paper demonstrates that sustainable competitive advantage is the product of enjoying both competitive advantage and strategic advantage. Viewed in this way, sustainable competitive advantage represents a process that meets the competitive needs of the present without compromising the ability of the organisation to meet future competitive needs. Sustainable competitive advantage is conservation oriented, needs based and future oriented. The authors suggest that a new classification of resources has emerged, demonstrating that rents are more relevant than profits in the analysis of sustainable competitive advantage.

Barney (1991) also carries forward the resource based view of competitive advantage. Understanding sources of sustained competitive advantage has become a major area of research in strategic management. Building on the assumptions that strategic resources are heterogeneously distributed across firms and that these differences are stable over time, this article examines the link between firm resources and sustained competitive advantage. He discusses four empirical indicators of the potential of firm resources to generate sustained competitive advantage value, rareness, imitability, and substitutability. The model is applied by analysing the potential of several firm resources for generating sustained competitive advantage.
advantages. The article concludes by examining implications of this firm resource model of sustained competitive advantage for other business disciplines.

**Dutta et al. (2003)** contribute to resource based view by proposing that the processes for setting or changing prices are capabilities that a firm can use as a basis for competitive advantage. Resource based view says that firms can generate rents through value creation. To capture rents, a firm must set the right prices for what it sells. Firm’s ability to set the right prices is an important means of appropriating value and therefore an important determinant of the ability of a firm to generate rents. To develop the ability to set the right prices, a firm must invest in resources and routines. The authors study the pricing process of a large manufacturing firm. They conclude that pricing resources, routines, and skills may help or inhibit a firm in setting the right price and hence in appropriating value created. This view of pricing as a capability contributes to the resource based view because it suggests that strategists should consider the portfolio of value creation and value appropriation capabilities a firm uses to create competitive advantage.

By definition, the dynamic resource based view deals with resources and capabilities over time. Heterogeneity of capabilities and resources in a population of firms is one of the cornerstones of resource based theory. **Helfat and Peteraf (2003)**, in this article introduce the concept of the capability lifecycle, which articulates general patterns in the evolution of organisational capabilities over time. The capability lifecycle identifies three initial stages of a capability lifecycle; founding, development and maturity followed by possible branching into six additional stages. These branches, the six Rs of capability transformation, reflect the reality that the lifecycles of capabilities may extend beyond that of the firms and industries in which they originated, and beyond the products to which they originally applied. The capability lifecycle helps to make resource based theory dynamic by providing a framework for understanding the evolution of capabilities over time.

### 2.3(5) Competitive Advantage and Sustainable Competitive Advantage

**Aaker (1984)**, in this article moves a step forward and proposes that a company should have sustainable competitive advantage (SCA) as a part of the strategy which should be
responsive to the external environment. Business strategy has two core elements. First is the product market investment decision and the other is development of SCA. Effective management involves the identification, selection and implementation of business strategies. The focus of this article is the selection criteria of the right strategies. An analysis is required to: identify the industry key success factors (KSF), skills and assets that competitors need to compete effectively; identify the strengths and weaknesses (assets, liabilities and distinctive competencies) of the business with respect to the KSFs and identify the competitor strengths and weaknesses with respect to the KSFs.

**Porter (1985)**\(^78\) observes that competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm’s cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. The central theme of this book is how a firm can actually create and sustain a competitive advantage in its industry, how it can implement the broad generic strategies. Aim is to build a bridge between strategy and implementation, rather than treat these two subjects independently or consider implementation scarcely at all as has been characteristic of much previous research in the field.

**Ghemawat (1986)**\(^79\) opines that traditional sources of competitive advantage viz. product innovation, production process, marketing tactics have now become a part of doing business. These are insecure because each can be duplicated, therefore sustainable competitive advantage (SCA) commands attention. SCA falls into three categories; size in the targeted market; access advantages and restrictions on competitors’ options. Because of size, a company can have the benefits of scale and scope economies; access advantage provides the benefits of know how, access to market and inputs access; competitors can be restricted by their past investments and government regulations.

**Aaker (1988)**\(^80\) in this book posits that a strategy can involve a variety of product strategies, positioning strategies, pricing strategies, distribution strategies, global strategies, etc. There are an infinite ways of competing. For a strategy to involve a sustainable competitive
advantage, it needs to have three characteristics. It must be supported by assets and skills. It should be employed in a competitive arena that contains segments which will value the strategy. Finally it should face competitors who cannot easily match or neutralise the sustainable competitive advantage. Some of the strategies which give sustainable competitive advantage are differentiation, low cost, focus, preemptive and synergistic strategies. Preemptive strategies employ first mover advantage to inhibit or prevent competitors from duplicating or counterfeiting. Synergistic strategies rely upon synergy between a business and other business in the same firm.

Many theories tried to explain why a country is more competitive than another. Based on the empirical study in 10 countries, covering 110 industries, Porter (1990) gives out that a nation’s competitiveness depends on the capacity of its industry to innovate and upgrade. He elaborates the competitiveness at three different levels i.e. the country, industry and at firm level. The nation’s competitive advantage depends on the four broad attributes: factor conditions, demand conditions, related and supported industries and firm strategy. Factor conditions consist of nation’s position in factors of production, such as skilled labour or infrastructure; demand conditions consist of nature of home market demand for industry’s product or services; presence or absence of supplier and other related internationally competitive industries are also a determinant; and lastly, conditions in the nation governing how companies are created, organised and managed and the nature of domestic rivalry come under firm strategy. These elements are arranged in the form of a diamond, each element interacts with others to reinforce/weaken the competitiveness and ‘diamond’ as a whole acts as a system.

Hamel and Prahalad (1993), in this article state most managers concern themselves only with the concept of fit i.e. allocation of resources among competing investment opportunities; and a long term perspective in which “patient money” figures prominently. As per authors stretch i.e. leveraging resources is as important as allocating them. Management can leverage its resources in five ways: by concentrating them on key strategic goals; by accumulating them efficiently; by complementing one kind of resource with another to create higher order value; by conserving resources; and by recovering them from the marketplace in the shortest
possible time. Within any particular market segment, it is the company’s relative competitive advantage that determines actual profitability and growth.

Tang and Bauer (1995)\(^\text{83}\) opine that strategy and quality must come together. Strategy deals with doing the right things and quality deals with doing things right. They call competitive dominance the unified practice of strategy and quality at the highest level of refinement and sophistication. It begins with a conviction that leadership is temporary, the incumbent can be dislodged and to stay a leader, the firm must constantly create more customer value and must continuously surprise the competition. They argue that to achieve competitive dominance, strategic thinking and practice must rise to a new level that goes beyond conventional orthodoxy.

Competitive advantage is the basis for superior performance. Understanding the anatomy of competitive advantage helps general managers improve their firms’ chance of gaining and sustaining of competitive advantage hence their chance of winning. Hao Ma (1999)\(^\text{84}\), in this paper advances an integrative framework to help general managers systematically analyse six facets of competitive advantage: its substance, expression, locale, effect, cause, and time span. Analysing the causes of competitive advantage helps a firm create and gain advantage. Studying the substance, expression, locale, and effect of competitive advantage allows the firm to better utilise the advantage. Examining the time span of competitive advantage enables the firm to fully exploit the advantage according to its potential and sustainability.

Passemard and Kleiner (2000)\(^\text{85}\) in this article explain how to integrate the concept of competitive advantage in the global context. The creation of a competitive advantage is a tough task, but preserving it is much harder. The preservation of a competitive advantage depends on three conditions: sources of the advantage; number of sources of competitive advantage; preservation of the advantage. A global strategy can be defined as one in which a firm seeks to gain competitive advantage from its international presence through either concentrated configuration, dispersed and coordinated activities, or both. Early reaction to the structural changes and strategic alliances are key options in global strategy.
Powell (2001) in this paper examines the logical and philosophical foundations of the hypothesis of competitive advantage. Strategic management theories invoke the concept of competitive advantage to explain firm’s performance, and empirical research investigates competitive advantage and describes how it operates, but as a performance hypothesis, competitive advantage has received little formal justification, particularly in light of its centrality in strategy research and practice. The author finds out that competitive advantage hypotheses are varied and ambiguous, and under no reasonable interpretation admit the inference that competitive advantage produces superior performance. Using a Bayesian argument, he identifies two hidden assumptions that lead to false causal inferences in competitive advantage research. From this logical foundation, he investigates the character of competitive advantage and in particular its empirical claims and consequences.

Barney (2002), unlike Porter and others does not focus around different types of competitive environment that a firm might face. Instead, after the organising framework is developed, he focuses on the specific strategic options that firms may choose to gain competitive advantage. At the business level, these options include vertical integration, cost leadership, product differentiation, flexibility and tacit collusion. At the corporate level, these options include strategic alliances, diversification, mergers and acquisitions and international strategies.

Stalk and Lachenauer (2004) discuss hardball strategies to win over competition. Hardball players pursue with a single minded focus competitive advantage and the benefit it offers. The keys, to become an effective hardball player, are focusing on competitive advantage and strive for “extreme” competitive advantage. Unlike plain competitive advantage, this is something that puts companies out of the reach of their competitors. The strategies are: devastate rival’s profit sanctuaries; plagiarise with pride, deceive the competition; direct attack (when sure of getting success); and raise competitors’ costs. The hardball strategists see no wrong in stealing any good idea.

Hao Ma (2004) proposes an integrative framework on the determinants of competitive advantage in global competition. The integrative framework as suggested by a critical review
of the literature, hinges on four general categories of factors; creation and innovation, competition, cooperation, and co-option, and three generic types of competitive advantages, ownership based, access based, and proficiency based. The research on competitive advantage should embrace both market structure variables and firm resource variables; both competitive and cooperative maneuvers; both internal sources such as managerial initiatives, and external factors such as government agencies or third party players.

Kim and Mauborgne (2004) give the concept of blue ocean strategy. Competing in overcrowded industries is no way to sustain high performance. In order to gain competitive advantage, companies are often driven to outperform rivals and capture greater shares of existing market space. To attain this they have ignored very important aspects of strategy: one is to develop or find blue ocean; and the other is to exploit and protect blue oceans. Business universe consists of two types of oceans: red and blue. Red ocean represents all the industries in existence today while blue Ocean denotes all the industries which are not in existence today, the unknown market space, untainted by competition. They opine company and industry are wrong units of analysis, because companies rise and fall, similarly the attractiveness of the industry also increases and diminishes over time. Therefore, the appropriate unit of analysis for the creation of blue ocean is the strategic move. In case of blue oceans it is seen that the successful companies pursue differentiation and low cost simultaneously.

Curveball strategies are an extension of hardball strategies given by Stalk and Lachenauer (2004). Stalk (2006) says playing hardball i.e. getting rough and tough with the competition, is not the only way to over smart competitors. Competitors can be beaten with a strategic curveball, one that will lead them to do something dumb that their otherwise wouldn’t have or not to do something smart that they otherwise would have. The aim of curveball and hardball strategies is to gain an advantage over the competitors. Success in the marketplace is ultimately achieved by winning customers, not by defeating competitors. A company may be tough or clever but it has to deliver products or services that are valued by customers. This article gives four strategies which are: drawing competitors out of the profit
zone; employing unfamiliar techniques; disguising success and letting rivals misinterpret success.

**Lash (2007)** proposes how competitive advantage can be achieved in the view of changing environment conditions. The author presents a guide for identifying the ways in which climate change can affect businesses and for creating a strategy that will help in managing the risks and pursuing the opportunities. Government regulators are not the only ones monitoring companies but investors and customers are also beginning to demand more disclosure. The author outlines certain risks companies may face in warming planet and how these can be transformed into opportunities. The risks are regulatory risks, supply chain risks, product technology risk, litigation risk, reputation risk and physical risk. Developing climate strategies require four key steps, quantifying carbon footprint, assessing carbon related risks and opportunities, adopting business in response to the risks and opportunities and finally, doing better than competitors. Reducing exposure to climate risk and creating new opportunities for profit are both important steps in building climate competitiveness.

Market orientation (MO) is an organisation wide concept that helps explain sustained competitive advantage (SCA). **Evanschitzky (2007)** develops the concept of Market Orientation of Networks (MONW). MONW contains the four dimensions of customer orientation, competitor orientation, inter functional coordination (which should be called intra partner coordination) and inter partner coordination. The objective of this paper is to extend the construct of MO and to test its relationship with the resource based view (RBV) and the industrial organisation (IO) view in explaining SCA. It is argued that MONW has direct and indirect effects on SCA. This paper also identifies the factors that affect SCA of service networks. The results show that resources are the primary source of competitive advantage. MONW is mediated by resource and industry structure effects and functions as the antecedent of resource and industry structure effects as well.

**Greenwald and Kahn (2005)** present the idea that in the present conditions, true competitive strategies are harder to find and maintain. According to them, sustainable dominance is more likely in markets of restricted size. In expanding markets, globalisation
has undermined profitability by undercutting existing economies of scale advantages. Scale advantages that endure in the face of increased globalisation are in markets limited enough to be dominated by one or a small number of competitors. Therefore, the more local a company’s strategies are, the better the execution tends to be. Strategies that are local in the non geographic sense improve companies’ competitive strength by facilitating cooperation across product boundaries.

Ghemawat (2005)\textsuperscript{95} also supports regional strategies and gives five types of regional strategies i.e. the home base strategy, the portfolio strategy, the hub strategy, the platform strategy, and the mandate strategy. Each has distinct strengths and weaknesses. The point to be considered is that the term regional does not denote geographic region. The definition of “region” often changes in response to market conditions and to a company’s own strategic decisions. In a world that is neither truly local nor truly global, such strategies can deliver a powerful competitive advantage.

\textbf{2.3(5) Miscellaneous}

Ansoff (1965)\textsuperscript{96} writes that it is to the firm’s advantage to be on the lookout for individual opportunities within the scope, which offer an unusual promise. These can be identified in two ways: in relation to characteristics of other products and markets and through the general characteristics of the competitive environment. He also discusses the entry barriers and demand capacity relationship.

Corporate strategy of service business is different from that of manufacturing business. Thomas (1978)\textsuperscript{97} in this article discusses how pure service business is different from product oriented business and why they require different strategic thinking. A pure service business is the one in which service is the primary entity that is sold. He differentiates between the types of strategies required by service businesses and manufacturing businesses. He further classifies the service businesses as equipment based and people based. Based on this classification, he suggests how managers can analyse their companies and take advantage of the strategies uniquely available to them.
Gluck et al (1980)\textsuperscript{98}, in this paper try to find out whether the reason for success of few companies is the result of substantial investment in strategic planning and devise market leader companies’ sequential strategic planning process. The phases are; basic financial planning, forecast based planning, externally oriented planning and strategic management. In phase one, companies display strategies but are not formalised. The quality of strategy in this phase largely depends on the top management. In second phase, most long term or strategic planning are developed. Resource allocation and portfolio analysis are a part of this phase. In third phase, strategists try to look at their company’s product offerings and those of their competitors from the viewpoint of an objective outsider. Strategic business units are also formed in this phase. The last phase joins strategic planning and management in a single process. These companies are willing to restructure their companies to generate successful plans and gain competitive advantage.

Porter (1991)\textsuperscript{99} reviews the progress of the strategy field towards developing a truly dynamic theory of strategy. It separates the theory of strategy into the causes of superior performance at a given period in time (termed as cross sectional problem) and the dynamic process by which competitive positions are created (termed as longitudinal problem). Strategy is the act of aligning a company and its environment. The environment, as well as the firm’s own capability, are subject to change. Thus, the task of strategy is to maintain a dynamic, not static balance.

Whiteley and Hessan (1996)\textsuperscript{100} suggest that all over the world, businesses are at the edge of unprecedented opportunity. Companies that can learn to be customer centered will have a remarkable opportunity to grow and prosper and take their well learned place in a dynamic, powerful, and highly competitive world marketplace. Companies can become customer centered by adopting five strategies: shift to a laser beam focus; hardwire the voice of the customer; universal collaboration; lasting customer enthusiasm rather than customer satisfaction, and a move to contact leadership.

Shepherd and Ahmed (2000)\textsuperscript{101}, in this paper examine companies operating in the computer and electronic equipment (C&EE) industry sector. Today, C&EE markets, which
traditionally had a product focus, are experiencing various challenges, as technology and product life cycles are shortened and product commoditisation increases. This has led some firms to move to a new paradigm of competitiveness, namely solutions innovation. This paper examines the challenges facing the computer and electronic equipment sector and the movement to a solutions innovation paradigm. To be a successful solutions provider, three key competencies need to be established, technical competence, integration competence and market/business knowledge competence. Becoming a successful “solutions” focused company demands radical change. The evolution to a “solutions” focused business model is therefore a high risk strategy, but in today’s rapidly changing economic and technological climate, there seems little alternative.

In this article, McGrath and MacMillan (2005) give a range of strategies that would support profitable growth and call these as marketbusters. After looking at wide range of strategic approaches to growth, everything from low risk, incremental changes to high risk, disruptive ones, they opine that market busters lay in between these two extremes. At a high level, this strategy is about redefining profit drivers; at a practical level, it involves making several deceptive simple moves. The authors identify five market busting strategies: transform the customer’s experience; transform your offerings; redefine your business’s profit drivers; anticipate and exploit industry changes and create a radically new offering. In this article, they undertake an in depth study of one of these strategies i.e. redefining business’s profit drivers by reconfiguring a unit of business or refocusing on distinctive key metric that drives growth.

Many companies offer products and services at prices lower than the prices charged by established businesses, often by harnessing the forces of deregulation, globalisation and technological innovation. Kumar (2006) present the options to the business leaders to fight these low cost rivals. The options are: attack; coexist uneasily; or become low cost players themselves. This could be done by a combination of strategies, i.e. by price wars, differentiation, or a combination of both. However, there always will two kinds of customers; those who buy on the basis of price and those who lay emphasis on value. Therefore, there
Review of Literature

will always be room for both low cost players and value added businesses but the market share will depend on the strategies businesses deploy.

2.4) CUSTOMER SATISFACTION

As the saying goes; make a customer happy, he would tell two of his friends about it, make a customer unhappy, he would tell everyone he knows about it. A satisfied Customer is the best ambassador. Recognising the importance of customer satisfaction, many researchers have undertaken studies on this topic. Customer satisfaction has been extensively studied by the researchers in various fields; the studies can be classified under following heads. A few important ones which are related with the research topic are discussed here.

Fig: 2.3

Review of Literature: Customer Satisfaction

2.4(1) Expectation Disconfirmation Model

The marketing literature does not provide exact definitions of customer effort, expectation and satisfaction. Therefore, for the precise investigation of these factors, Cardozo (1965) uses laboratory experiment. The results of this experiment show that, under certain conditions, effort and expectation affected the evaluation of both, product and shopping experience. When expectations were negatively disconfirmed, subjects rated both product
and shopping experience unfavorably. Specifically, the experiment suggests that satisfaction with the product may be higher when customers expend considerable effort to obtain the product than when they use only modest effort. This finding is opposed to usual notions of marketing efficiency and customer convenience. The research also suggests that customer satisfaction is lower when the product does not come up to expectations than when the product meets expectations.

Oliver (1980)\textsuperscript{105} proposes a model which expresses consumer satisfaction as a function of expectation and expectancy disconfirmation. Satisfaction, in turn, is believed to influence attitude change and purchase intention. Results from a two stage field study support the scheme for consumers and non consumers of a flu inoculation. The article integrates the suggested antecedents and some hypothesised cognitive consequences into a coherent framework of satisfaction related concepts. The findings support the results of earlier studies on the expectation effect and disconfirmation effect. The effect of disconfirmation on later stages of the model (post exposure attitude and intention), however, does not appear to have the same pervasive influence as the adaptation level variables in a multivariate perspective. Satisfaction appears to mediate changes between pre exposure and post exposure attitudinal components.

Bearden and Teel (1983)\textsuperscript{106} purport to increase the understanding of consumer satisfaction by integrating complaint behaviour into an explanation of consumer satisfaction. To examine the antecedents and consequences of consumer satisfaction, the study uses data obtained from 375 members of a consumer panel in a two phase study of consumer experiences with automobile repairs and services. The results support the previous findings that expectations and disconfirmation are the plausible determinants of satisfaction. Expectations are related positively to attitudes and across time to satisfaction. Similarly, disconfirmation is a significant predictor of satisfaction. Satisfaction, in turn, is significantly correlated with post purchase attitudes. As is consistent with the normal depiction of attitude structure, the strongest relationships are between attitudes and intentions within time periods. Lastly, satisfaction is related negatively to complaint behavior as hypothesised.
Cadotte et al (1987)\textsuperscript{107} compare the disconfirmation models of customer satisfaction employing three alternative standards of performance, by using causal modeling. The authors obtain pre and post measures from subjects in three different use situations. The study provides evidence that standards other than expectations are being used by consumers. The experience based norms concept offers an alternative for examining how consumers form disconfirmation beliefs and satisfaction feelings. The product norm model and the best brand norm model are consistently better than the brand expectation model at explaining variation in satisfaction feelings and total model fit. The results show that in two of the three situations a different evaluation standard better explains the data. More importantly, the dependency of evaluation standards on situations emphasises that no single standard will always best explain satisfaction processes. Thus, comparison standards seem to be rooted in one’s total experience with the focal and related brands and researchers need a typology of evaluation standards from which to draw.

Anderson and Sullivan (1993)\textsuperscript{108}, in this paper investigate the antecedents and behavioral consequences of satisfaction, both analytically and empirically. They develop a model to understand and predict relations between the antecedents and consequences of customer satisfaction, as well as systematic differences in these relations across firms. The results reveal that satisfaction is best specified as a function of perceived quality and disconfirmation. As often suggested in the satisfaction literature, expectations do not directly affect satisfaction. The authors find that the quality which falls short of expectations has a greater impact on satisfaction and repurchase intentions than quality which exceeds expectations. Disconfirmation is more likely to occur when quality is easy to evaluate. Finally, in terms of systematic variation across firms, the data suggest support for the model’s prediction that the elasticity of repurchase intentions with respect to satisfaction will be lower for firms that provide high satisfaction. This implies a long run reputation effect insulating firms which consistently provide high satisfaction.

Johnson et al (1995)\textsuperscript{109} develop and test alternative models of market level expectations, perceived product performance, and customer satisfaction. The purpose is to find out the nature of market level product and service performance expectations and the antecedents of
market level satisfaction. Market performance expectations are argued to be largely rational in nature yet adaptive to changing market conditions. Customer satisfaction is conceptualised as a cumulative construct that is affected by market expectations and performance perceptions in any given period and is affected by past satisfaction from period to period. Our results suggest that satisfaction is positively affected by both performance and expectations yet remain adaptive to changing market conditions. Performance effects reflect the impact that recent experiences with a product or service have on satisfaction, while expectation effects reflect the impact that past performance information has on satisfaction. Market level satisfaction is also relatively stable over time and is positively affected by performance and expectations in any given period.

Although the “disconfirmation of expectations” model continues to dominate research and managerial practice, several limitations indicate that it is not a complete picture of satisfaction formation. In this study, Spreng et al (1996) describe and empirically test a more comprehensive model which proposes that feelings of satisfaction arise when consumers compare their perceptions of the performance of a product or service to both their desires and expectations. The proposed model confirms the importance of desires congruency as a determinant of satisfaction, it integrates multiple standards of comparison into a single framework, clarifies the roles of expectations, desires, and performance, and identifies information satisfaction as a key determinant of satisfaction. The model predicts that satisfaction changes over time, even though there has been no change in the extent to which the product performed as expected. The authors view desires as a major determinant of consumer satisfaction and consumer behavior in general. These findings indicate that expectations have both positive and negative indirect effects on satisfaction, whereas desires have only a negative effect.

2.4(2) Financial Performance and Customer Satisfaction

In this article, Pickle and Rungeling (1973) study the relationships between enterprise profitability, other measures of entrepreneurial satisfaction, and the quality of a firm’s services to its customers. This article studies the firms in a single metropolitan area that are all small enough to be managed by their owners. It measures entrepreneurial and customer...
satisfactions, firm profits, and determine their correlations. The results show that profitability and customer satisfaction are strongly associated. All correlations between components of owner manager satisfaction and customer satisfaction are positive, but only profit and financial satisfaction are significant at the 5 per cent level. These conclusions can be extended to bigger firms where profitability and customer satisfaction will also appear together rather than as alternatives.

Anderson et al (1994)\textsuperscript{112}, examine the links between customer based measures of firm performance, such as customer satisfaction and traditional accounting measures of economic returns. They discuss how expectations, quality, and price should affect customer satisfaction and why customer satisfaction, in turn, should affect profitability. The findings support a positive impact of quality on customer satisfaction, and, in turn, profitability. The authors demonstrate the economic benefits of increasing customer satisfaction using both an empirical forecast and a new analytical model. The authors see loyal and satisfied customers as revenue generating assets to the firm that requires a cost to acquire, retain, and develop; and economic returns from improving customer satisfaction are not immediately realised. The results show that the customer satisfaction may fall as market share increases. When quality and expectations increase, there is a positive effect on customer satisfaction in the long run, but increased expectations may have a negative impact in the short run. In the context of cumulative customer satisfaction, the long run effects of increased (decreased) expectations outweighs the short term effect of any temporary gaps and lead to a rise (fall) in overall customer satisfaction.

Many firms now use or are considering systems in which promotion, awards, or compensation depend upon measures of customer satisfaction (or quality). Hauser et al (1994)\textsuperscript{113} explain how firms may profit from measuring customer satisfaction and suggest several improvements upon current practice. Using a mathematical model, they provide an explanation of why customer satisfaction incentive systems enhance long term profits. The authors derive optimal reward systems for an equilibrium in which the firm maximises profits, employees maximise their expected utility, and customers choose purchase quantities based on initial reputations, employee efforts (both ephemeral and enduring), and price.
Recommendations for improving upon current practice include: measure present, former and potential customers; measure satisfaction with competitors’ products; disaggregate satisfaction to reflect the performance of employee groups; and, when different customer segments have different switching costs or they vary in the precision with which their satisfaction can be measured, then measure the segments separately and assign different weights in the incentive plan.

Bolton (1998)\textsuperscript{114} develops and estimates a dynamic model of the duration of provider customer relationship that focuses on the role of customer satisfaction. The results indicate that the strength of the relationship between duration times and satisfaction levels depends on the length of customers’ prior experience with the organisation. The duration of the service provider customer relationship depends on whether customers experienced service transactions or failures, where the effects of perceived losses are directly weighed by prior satisfaction, creating contrast and assimilation effects; and there is considerable heterogeneity across customers because some customers have a higher utility for the service than others. Furthermore, the results show that changes in customer satisfaction can have important financial implications for the organisation because lifetime revenues from an individual customer depend on the duration of his/her relationship, as well as the amount of his/her purchases across billing cycles.

Kanji and Wallace (2000)\textsuperscript{115} recognise customer as economic assets. When a customer recognises quality, it is reflected in customer satisfaction. Customer satisfaction in turn, can lead to increased revenue. It is not enough solely to satisfy customers; for a business to be successful in the long run, it must satisfy customers at a profit. In this paper, the authors have used a condensed version of Kanji’s (1998) Generic Business Excellence Model to measure organisation with the help of ten interrelated latent variables. A typical example of the Business Excellence Index (BEI) for a group of companies is given using the present method. The Business Excellence Index (BEI) is a means of measuring customers’, employer’s and shareholders’ satisfaction simultaneously within an organisation in order to obtain a comprehensive evaluation of the organisational performance. The authors believe that the
BEI methodology given in this paper will help the organisation to measure and compare different areas of its business both directly and over time.

Yeung and Ennew (2000), in this article study the link between customer satisfaction and profitability. Using data from the American Consumer Satisfaction Index, this paper evaluates empirically the direct relationship between customer satisfaction and a range of measures of financial performance. The results suggest that satisfaction has a positive impact on financial performance across a range of measures, both internal and external. All the internal measures show a positive effect although, of the two external measures, share price does appear to be influenced by customer satisfaction but market return does not. The internal financial performance measures are sales, operating income, net income and retained profit. The findings provide sufficient evidence to suggest that there is a significant relationship between customer satisfaction and stock market performance.

Although customer satisfaction is one of the fundamental concepts in marketing theory and practices, the direct link between customer satisfaction and a firm’s bottom line is still vague. Guo et al (2004) propose that customer satisfaction influences profitability, and at the same time, profitability impacts satisfaction. The purpose of this paper is to investigate the linkage between marketing metrics like customer satisfaction and sales and financial metrics such as profitability and stock prices. However the authors propose that there is a lagged effect between the two. In other words, past satisfaction has a positive effect on current profitability, and vice versa. Furthermore, event study methodology is utilised to examine stock reaction to the announcement of the firm’s satisfaction performance, solidifying the relationship between satisfaction, a marketing metric, and financial performance. The results of event study also confirm that satisfaction has a direct bearing on the firm’s financial well being. The authors conclude that marketing variables, at least customer satisfaction, are indeed of critical importance to the firm’s survival, growth, and success.

The relationship between customer satisfaction and economic returns has received growing attention in the customer satisfaction literature. Using panel data from 36 retail branch banks managed by an international financial institution, Sui-Hua Yu (2007), in this study...
examines the cross sectional relation between customer satisfaction and individual customers’ purchase behavior as well economic contributions; and also investigates how customer satisfaction affects future customer revenue, costs, and profits. The results indicate that several dimensions of customer satisfaction are positively associated with individual customers’ repurchase intentions and firm reputation. The impact of overall customer satisfaction is largely attributable to the impact of the responsiveness dimension. While there is no significant and positive relation between customer satisfaction and customer profitability, customer satisfaction does have a positive impact on customer revenue and costs. This finding reveals that higher customer satisfaction leads to higher customer revenue and higher customer costs at the same time, and thus customer profits remain unaffected.

2.4(3) Satisfaction with Product

Swan and Combs (1976) feel that it is seldom clear which general dimensions of product performance are important to the consumer and how these dimensions are related to satisfaction. This study examines one aspect of the relationship between expectations, performance, and satisfaction. In particular, the authors look at the expressive (nonmaterial, psychological) and instrumental (physical) dimensions of a product, in this case clothing, to determine the extent of their influence on consumer satisfaction and dissatisfaction. The authors argue that the satisfaction with an item of clothing involves the two processes: instrumental performance (i.e., performance of the physical product), and expressive performance that meets or exceeds expectations. However, satisfactory instrumental performance alone will not result in satisfaction to the consumer, since most of the functions of clothing that are important to consumers involve performance at a psychological level, such as an indicator of status or extension of the self. In the present study, authors predict that instrumental performance is necessary, but not sufficient condition for satisfaction. Dissatisfactory items will involve primarily failures of instrumental performance to meet expectations.

The research on consumer satisfaction with products has typically ignored influences other than the confirmation of expectations relative to product outcomes. In this paper, Westbrook (1980) examines the impact of broader, intrapersonal affective variables on satisfaction,
and presents empirical results on the relative effects of both types of influence. The findings support the proposition that product satisfaction is partly a function of broader affective influences within the consumer, in addition to purchase specific cognitive factors, such as the extent to which product outcomes meet or exceed expectations. However, this phenomenon may vary by product category. Higher levels of product satisfaction were indicated by persons who were more satisfied with their lives as a whole, and by persons with more favorable attitudes towards the consumer domain, i.e., the market place, business firms, and consumerism, than by others whose expectations of product performance were equally well met, but lacked these sources of positive affect. Other sources of affect, notably optimism and pessimism, displayed no effects.

**Churchill and Surprenant (1982)** investigate whether satisfaction is simply affected by the extent of the disconfirmation experience as is often suggested, or do expectations and performance exert independent effects on satisfaction in addition to their impact via disconfirmation. They model the process for two types of products, a durable and a nondurable good, using experimental procedures in which three levels of expectations and three levels of performance are manipulated for each product in a factorial design. The results suggest the effects are different for the two products. For the nondurable good, the relationships are as typically hypothesised. Disconfirmation positively affected satisfaction as is commonly held; when subjects perceived the product performing better than expected, they were more satisfied with it and vice versa. The results for the durable good are different in important respects. First, neither the disconfirmation experience nor subjects’ initial expectations affected subjects’ satisfaction with it. Rather, their satisfaction was determined solely by the performance of the durable good. This finding suggests that satisfaction with the durable good can be increased only by increasing performance, not by minimising negative disconfirmation.

**Krishnan et al (1999)** study the drivers of customer satisfaction for financial services. They provide a framework and approach for translating customer feedback into managerial actions for improving overall customer satisfaction with financial services. It allows managers to understand the specific factors that significantly impact overall customer
satisfaction with financial services, and quantitatively assess the relative impacts of these factors. The contributions of this paper are both managerial and methodological. On the methodological front, this paper introduces a new Bayesian approach for estimating customer satisfaction models. On the managerial front, the analysis indicates that satisfaction with product offerings is a primary driver of overall customer satisfaction. Satisfaction with the quality of financial reports, branch services, and the quality of automated telephone service through call centers are also important, although their effects are substantially higher for specific types of customers.

Despite its strategic importance, empirical research linking satisfaction to repurchase behavior has been lacking, especially for durable goods. Mittal and Kamakura (2001) develop and test a model that investigates how differences in customer characteristics affect; satisfaction thresholds, response bias, and nonlinearity in the satisfaction retention relationship. The results show that consumers with different characteristics have different thresholds such that, at the same level of rated satisfaction, repurchase rates are systematically different among different customer groups. The nature and extent of response bias in satisfaction ratings varies by customer characteristics. Repurchase behavior is less sensitive to changes in satisfaction ratings for some customer groups than others. The link between satisfaction and repurchase behavior is highly nonlinear, though the nonlinearity does not vary on the basis of consumer characteristics. Finally, the functional form underlying the satisfaction behavior link is markedly different from the satisfaction intention link.

Phillips and Baumgartner (2002) conducted two studies that served to clarify the role of consumption emotions in the satisfaction response. The first study determines how consumption emotions are formed and how they impact satisfaction and investigates whether consumption emotions are a result of product performance or disconfirmation. The findings show that both positive and negative emotions are primarily a function of product performance and influence satisfaction even when the effects of expectations, performance, and disconfirmation are controlled. In the second study, the authors propose and test an alternative framework for understanding the role of consumption emotions in the satisfaction reaction.
response for situations in which consumers use more of an experiential perspective to anticipate and experience consumption. According to this model, consumers form affective expectations about how consumption of the product will make them feel, experience positive or negative emotions as a result of these expectations and product consumption, and evaluate the discrepancy between experienced and anticipated emotions. All three affective variables then influence satisfaction.

2.4(4) Satisfaction in Services Industry

Hallowell (1996)\textsuperscript{125}, in this paper illustrates the relationship of profitability to intermediate, customer related outcomes that managers can influence directly. The findings support the theory that customer satisfaction is related to customer loyalty, which in turn is related to profitability. While this theory has been advocated for service firms as a class, this paper presents an empirical analysis of one retail bank. The results show that customer satisfaction, customer loyalty, and profitability are related to one another. The author posits that although customer satisfaction is related to profit, a bank should not endeavour to satisfy every customer. This could be an error in interpretation. Banks should target and serve only those customers whose needs it can meet better than its competitors in a profitable manner. These are the customers who are most likely to remain with that bank for long periods, who will purchase multiple products and services, who will recommend the bank to their friends and relations, and who may be the source of superior returns to the bank’s shareholders.

Using structural equation analysis, Garbarino and Johnson (1999)\textsuperscript{126} analyse the relationships of satisfaction, trust, and commitment to component satisfaction attitudes and future intentions for the customers of a theater company. As predicted by various partnering theories, there are significant differences in trust and commitment for customers with relational behaviors, compared with customers with more transactional patterns of exchange. The results also show that attitudes toward the physical facilities affect satisfaction but not trust and commitment; facility attitudes affect the future intentions of the weak relationship customers only. Transactional marketing programs focused on managing satisfaction will be more effective for low relational customers and costly relationship marketing efforts by the organisation may not be necessary if the customers desire the relationship.
Pizam and Ellis (1999), discuss the topic of customer satisfaction and its application to the hospitality and tourism industries. They define the concept of customer satisfaction and analyse its importance to services in general and to hospitality/tourism services in particular. Unlike material products or pure services, most hospitality experiences are an amalgam of products and services. Therefore it is possible to say that satisfaction with a hospitality experience such as a hotel stay or a restaurant meal is a sum total of satisfactions with the individual elements or attributes of all the products and services that make up the experience. Following a discussion on the dimensions and attributes of satisfaction, the authors list the main methods of measuring satisfaction and conclude with a review of global and cross cultural issues that affect satisfaction.

Smith Bolton and Wagner (1999), in this article develop a model of customer satisfaction with service failure/recovery encounters. Service failures and failed recoveries are a leading cause of customer switching behavior in service organisations. Therefore, well executed service recoveries are important for enhancing customer satisfaction, building customer relationships, and preventing customer defections. The authors execute the research in the context of two different service settings, restaurants and hotels. The results show that customers prefer to receive recovery resources that match the type of failure they experience in amounts that are commensurate with the magnitude of the failure that occurs. The results of this research provide organisations with guidelines for developing service recovery procedures that improve customer service and enhance customer relationships. These guidelines can be used to implement service delivery systems that include provisions for appropriate recovery efforts, allocate recovery resources to maximise returns in terms of satisfaction, and train employees to recognise failures and reduce their effects on customers.

In this study, Chang (2000), attempts to evaluate the effects of customers’ perceptions of physical environment on their satisfaction, which is expected to have an effect on their intentions to return to the events. The physical environment is likely to be a significant influence on how consumers position, or categorise, sport services. The physical environment of the sport venue will also impact the feelings and emotions of individuals. The study is based on the data collected from spectators at three Midwestern Conference ice hockey
arenas; and the effects of physical environment on customer satisfaction, the effect of customer satisfaction on their return intentions, and the direct relationship between the perceptions of physical environments and customers’ return intentions were investigated. The results in this study indicate that perceived physical environments have a strong effect on customer satisfaction and customer satisfaction has a strong effect on their return intentions. Physical environments, however, do not have a significant effect on customers’ return intention; its impact was rather mediated through customer satisfaction.

Technology has become an integral part of the marketplace. Meuter et al (2000) describe the results of a critical incident study based on more than 800 incidents involving self service technologies (SSTs) solicited from customers through a web based survey. The purpose of this study is to find out the sources of customer satisfaction and dissatisfaction in encounters involving SSTs, whether these are similar to or different from the sources of customer satisfaction and dissatisfaction with interpersonal encounters. The authors identify several factors that appear to influence dissatisfaction with technology based service encounters. The satisfaction is due to the SST’s ability to bail customers out of immediate or troubling situations. The second and largest major category for satisfying incidents is the relative advantage that customers perceive they get from using an SST in comparison with interpersonal service delivery alternatives. The factors which cause dissatisfaction are process failures and poor design for both the technology interface and other aspects of the service process.

Yelkur (2000), in this paper develops a model that suggests the possible effect of each individual element of the services marketing mix on the customer’s perception of the service. The proposed model is formulated on the basis of propositions that relate marketing mix variables to the customer’s perception of service. The model incorporates customer expectations derived from their own experiences or others’ experiences with the service, the relative prices of other identical services, and the organisation’s promotional methods for communicating the features of the service offered. The author finds that the customer perception of a service is entirely subjective. So the customer’s judgement or evaluation of the service is the crucial factor in the delivery of a service. This model is limited to the
marketing mix and customer satisfaction variables affecting service delivery. If service organisations pay more attention to their employees as well as their customers, it would increase both employee motivation as well as customer satisfaction.

Many researchers have identified a positive relationship between customer loyalty and profitability. This study investigates and develops methods that will help hotels increase customer loyalty. This study explores the relationship between customer satisfaction and customer loyalty in the hotel industry. Bowen and Chen (2001) develop and implement a method for hotels to identify attributes that will increase customer loyalty. Other hotels can replicate the methodology used in this study. Based on surveys from hotel guests, the authors find that the relationship between customer satisfaction and customer loyalty is non linear. The results verify that customer satisfaction does not equal customer loyalty. Managers should realise that having satisfied customers is not good enough; they must have extremely satisfied customers. The results of study also support the contentions that there is a positive correlation between loyal customers and profitability.

Customer loyalty has become a topical issue in research and practice due to its proven dominance in a hotel organisation’s success. Kandampully and Suhartanto (2003) suggest that developing customer loyalty depends not only on the hotel manager’s capacity to increase customer satisfaction in terms of performance, but also on his or her ability to establish a favorable hotel image. This research identifies the factors of image and customer satisfaction that are positively related to customer loyalty in hotels. Research findings indicate that hotel image and customer satisfaction with the performance of housekeeping, reception, food and beverage, and price are positively correlated to customer loyalty. Thus, this research suggests that efforts towards quality improvement should focus, primarily, on ensuring customer satisfaction with housekeeping. The authors suggest that customer loyalty is time specific and non permanent and, therefore, requires continuous and consistent investment.

Law et al (2004), in this study investigate the impact of waiting time and other service quality factors on customer satisfaction and return frequency in the fast food industry. They
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model the relationships between customer satisfaction, repurchase frequency, waiting time and other service quality factors in fast food outlets. Based on the survey, the authors formulate a repurchase frequency model and a satisfaction model. The results indicate that waiting time and other service factors such as staff attitude, environment, seat availability and food quality significantly influence the customers’ return frequency. Waiting time, staff attitude, food quality and food variety all significantly affect customer satisfaction. They also find that the significance of the relationship depends on the timing of the visits. These models will help managers to understand the critical factors that influence customer loyalty and satisfaction in the fast food industry and help them make improvements accordingly.

Das and Samanta (2005) consider customer satisfaction as a business survival requirement. In the present era customer satisfaction plays the key role for success in any business. Any industry, irrespective of its nature has to give top priority to customer satisfaction for surviving in this competitive market. The authors study an Indian software solutions company, which handles many projects for its clients, with an objective to know about customers’ satisfaction, which enable the company to know about their strong and weak points, to help them to improve their future performance and also to identify their promising “repeat customer” clients. The results identify eight factors which could reflect the customer satisfaction level. These are productivity, quality of delivery, meeting delivery schedule, technical support, communication, proactive or promptness in response, skill level and domain knowledge. The authors propose a customer satisfaction index. They use the index as an input to the marketing division to identify their potential customers from their past experience.

Gilbert and Veloutso (2006) write that satisfied customers are key to long term business success. This study attempts to provide added insight into the significant variance in service quality from the eye of the customer. It seeks to identify measures that can be used across industries for purposes of assessing customer service effectiveness and attempts to identify empirically core characteristics of customer satisfaction ratings across six industries. The industries included are banking and finance, retail, government, grocery stores, hospitality/sports, and restaurants. The paper finds that customer satisfaction does differ
across industries, and that both the banking/finance and hospitality/sports industries seem to please their customers more than the other industries analysed in this research undertaking. Those dealing with government, general retail and moderately priced fast food restaurants received lower service satisfaction ratings. Differences were also found among respondent characteristics (i.e. age, gender, education and ethnicity/race).

This study assesses the antecedents and consequences of customer satisfaction and retention in the hotel industry. Sim et al (2006) look at the antecedent effects of customer satisfaction as well as the effect of added value and gender on customer satisfaction and customer retention, and how they relate to the intent to switch. Customer retention is operationalised in terms of loyalty and intent to switch, and customer satisfaction is operationalised in terms of hotel ambience and hospitality. The results indicate that the latent construct customer retention is dependent on the latent construct of customer satisfaction. Added value has a positive effect on customer satisfaction and customer retention. In this study, “customer satisfaction” is found to be significantly related to “customer retention.” Since the study was conducted in a hotel context, this suggests that “retention” of hotel customers can be improved by enhancing “satisfaction” as exhibited by the customers.

An understanding of the costs of satisfaction in service industries is very less developed than it is for goods industries. In this paper, Cugini et al (2007) propose and test a framework to analyse and manage the relationship between company costs and customer satisfaction in service industries. Based on a case study from the tourism industry, they show how service components can be used as a key medium to link customer satisfaction to the cost of service production and delivery. This study makes a contribution to the understanding of strategic cost management in service industries, through the development of a model which allows establishing a direct link between sources of efficiency in managing service costs and sources of effectiveness in generating customer satisfaction.

Based on theoretical considerations, six assumptions are developed and tested. The purpose of this study is to reveal whether or not customer satisfaction and/or customer loyalty can be used to predict the future business potential of existing customers, what are the main drivers of future business potential of existing customers, and whether or not there is any impact of demographics, such as company size, age and gender of the respondent. The results show that full service customers are more satisfied; satisfaction is a better predictor for future business potential than loyalty; image and expectations are the main drivers for full service status; the importance of image and expectations depends on company size; and older customers and women have a higher tendency of full service status.

2.4(5) Miscellaneous

This study brings together the fields of industrial organisation and consumer research in an attempt to account for variations in consumer dissatisfaction among product categories. Fornell and Robinson (1983)\textsuperscript{140}, in this study take a first step in examining some of the potential forces behind consumer dissatisfaction at the industry level. The results indicate that consumer cost and distribution breadth are the most powerful constructs in terms of their effect on consumer dissatisfaction. As hypothesised, consumer cost is positively related to dissatisfaction (with both price and quality). It was also hypothesised that distribution breadth is an indicator of price elasticity and (less) product differentiation and is thereby related to dissatisfaction. The results suggest that this is a plausible hypothesis, because selective and specialty retail outlets are able to reduce price elasticity (i.e., consumers are less sensitive to price), dissatisfaction with price is negatively related to selective distribution (or, positively related to distribution breadth). The relationship between industry concentration and consumer dissatisfaction is virtually nonexistent.

Iacobucci and Ostrom (1993)\textsuperscript{141} study the literature and find that research in services marketing suggests that services consist of two components; the core service and the relationship between the service provider and the client. Literature, describes men as agentic (i.e., goal oriented) and women as communal (socially oriented). On the basis of these studies the authors draw the hypotheses to find which factors should be most influential to male and female consumers in determining customer satisfaction with service encounters. The results
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indicate that the evaluation of services may be directly affected by the following factors: (a) gender of the evaluator, (b) perceived job related competence of the service provider (core), (c) perceived interpersonal abilities of the service provider (relational), and (d) the service provider’s gender. They also suggest that service providers’ promotional communications could be modified according to the different targets, needs, emphasising core qualities in male dominated purchase industries or friendliness of service providers in female dominated purchase industries. The communications should vary; for example, testimonials targeted toward women might emphasise good relations with the service provider, whereas straight product descriptions targeted toward men might clearly state competitive advantages in the core of the service offering.

Despite the importance of the retailer’s role in customer satisfaction, much of the current academic literature has neglected it. Chu and Desai (1995), in this paper acknowledge the importance of the retailer and examine ways that a manufacturer can help or motivate its retailer to provide an appropriate contribution to customer satisfaction. They consider two broad categories of incentives by which a manufacturer can motivate its retailers to provide high customer satisfaction; manufacturer assistance that reduces the retailer’s cost of providing customer satisfaction (CS assistance) and customer satisfaction index (CSI) bonus. The results show that if a retailer has a long term orientation, CS assistance is a more effective coordination mechanism that induces the retailer to expend more effort at customer satisfaction. However if the retailer has a short term orientation, CSI bonus is a more effective coordination mechanism. A long term oriented retailer is more valuable to a manufacturer than a short term oriented one and the use of CS incentives results in greater profits for both the manufacturer and the retailer.

Goodman et al (1995), in this article study relationships among levels of involvement between customers and suppliers, customers’ evaluations of core and peripheral factors in their transactions, and customers’ overall satisfaction. The results show that customer involvement with a firm may affect customer satisfaction. The highly involved customers who were dissatisfied with core factors expressed greater overall dissatisfaction with the relationship than those less involved who also were dissatisfied with core factors. Peripheral
aspects, such as supplier responsiveness to customer inquiries, appeared to influence how customers evaluated a core product as well as their overall satisfaction. Therefore, the managers should pay attention to both core and peripheral factors and especially to the impact of the peripheral factors on the core and on overall satisfaction. Customer involvement may be functional if the firms perform well, but if they perform poorly, closer relationships may amplify overall dissatisfaction.

Service quality and customer satisfaction are important concepts to researchers and practitioners. In this article, Iacobucci et al (1995) present two studies in which they allow respondents to decide whether they thought the terms quality and satisfaction were similar or different. The results show that no differences between quality and satisfaction are there regarding feelings such as disconfirmation, keeping promises, customisation, empathy, friendliness, or purchase intentions. Turning to the differences, the findings indicate that the purchase attributes of price, back stage, and expertise as causal antecedents more likely to affect judgments of service quality, and timeliness, service recovery, and physical environment as those more likely to affect perceptions of customer satisfaction. Duration (short term vs. long term) and affect cognition, the two concepts which are frequently proposed to distinguish quality and satisfaction were not mentioned by respondents as differentiators of quality and satisfaction judgments.

Over the years, the importance of customer satisfaction has been taken up, from both the theoretical and the empirical perspective, in many articles and studies. However, the problem of implementing customer satisfaction plans remains an open question. Muffatto and Panizzolo (1995), through this study aim to develop a framework for customer satisfaction and to provide a detailed description of the relationship structure between the different elements of the organisational structure. Starting from the consideration that customer satisfaction is an inter functional concept, this framework seeks to integrate all aspects into one model. The authors propose a framework for the analysis of the organisational processes related to customer satisfaction. The framework has three sections, on the top there is planning processes, then design processes and in the bottom there is monitoring processes.
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This means using an integrative and holistic approach, which optimises the interaction of primary processes and activities.

Selecting the best employees for customer contact jobs is critically important for customer satisfaction. Mohr and Henson (1996)\textsuperscript{146}, in this study examine whether customers react negatively to interactions with employees whose gender is incongruent with the norm for the job. They formulate three research questions: (a) Do customers care about the gender of a service employee? (b) If they do, is there a general bias in favor of one gender over the other, or (c) is there a congruency bias, with customers preferring men in male dominated jobs and women in female dominated jobs? The results show that the gender of an employee in gender typed jobs matter to many of the respondents. The preference for job congruent employees was particularly strong among male respondents and among cross sex typed respondents (i.e., masculine women and feminine men). Some respondents also demonstrated a bias in favour of employees who were the same gender as themselves. In spite of the gender based biases, the determinant of customer evaluations and satisfaction was the service encounter outcome.

Anderson et al (1997)\textsuperscript{147} examine the links between customer satisfaction and productivity. A review of the literature reveals sharp disagreement as to whether the two are compatible. The authors present a conceptual framework useful in resolving these contradictory viewpoints. The framework serves, in turn, as a basis for developing a theoretical model relating customer satisfaction and productivity. The model predicts that customer satisfaction and productivity are less likely to be compatible when: customer satisfaction is relatively more dependent on customisation as opposed to standardisation and, when it is difficult (costly) to provide high levels of both customisation and standardisation simultaneously. The findings indicate that the association between changes in customer satisfaction and changes in productivity is positive for goods, but negative for services. In addition, while both customer satisfaction and productivity are positively associated with Return on Investment (ROI) for goods and services, the interaction between the two is positive for goods but significantly less so for services. Taken together, the findings suggest support for the contention that tradeoffs are more likely for services. Hence, simultaneous attempts to
increase both customer satisfaction and productivity are likely to be more challenging in such industries.

Olsen (2002)\textsuperscript{148}, in this study evaluates alternative measurement approaches to test the relationship between perceived quality performance, customer satisfaction, and repurchase loyalty within a relative attitudinal framework. The results show that the proposed model, with satisfaction as a mediator between quality and repurchase loyalty, is an acceptable representation of the data across four products and for both comparative and non-comparative evaluations. The use of relative attitudes, however, indicates a much stronger relationship between quality, satisfaction, and loyalty than the attitudes toward a product when they are performed as an individual evaluation. The relationships between quality and loyalty and satisfaction and loyalty were positive but varied across products. The author suggests that quality performance and satisfaction should be measured as comparative or relative attitudes toward products and services that are functionally substitutable.

Customer satisfaction is an important issue for marketing managers, particularly those in services industries and most surveys emphasise that achieving customer satisfaction is the end goal. Bennett and Rundle-Thiele (2004)\textsuperscript{149}, in this paper propose that this focus is due to the assumption that satisfied customers are loyal customers and thus high levels of satisfaction will lead to increased sales. The authors empirically demonstrate that satisfaction is not the same as attitudinal loyalty and that there are instances where satisfaction does not result in loyalty. This study confirms previous research that satisfaction and attitudinal loyalty are highly associated with a positive relationship. The results also indicate that satisfaction and loyalty in a business services setting are different constructs, and while the relationship is positive, high levels of satisfaction do not always yield high levels of loyalty. The knowledge of the attitudes and behaviors of individual customers can be used to form marketing strategies and specific sales management tactics aimed at strengthening the customer supplier relationship, building trust and increasing profitability.

Meirovich and Bahnan (2008)\textsuperscript{150}, study the links between quality and consumers’ emotions and eventually with their satisfaction. This study introduces two components of total quality
structure; quality of design and quality of conformance, for analysis of the link between quality and customer emotions. The results show that there is a significant relationship between possible combinations of two quality dimensions and customers’ affective responses in terms of both their valence and intensity. When both quality of design and conformance are high, customers tend to experience positive emotions with high intensity. In the opposite situation when both dimensions are low, customers tend to respond with negative and intensive emotions, and satisfaction is the lowest. An interesting finding of this study suggests that customers value quality of conformance higher than quality of design.

Sharma and Gadenne (2008), in this study investigate the impact of quality management practices on three measures of organisational performance comprising customer satisfaction, improved competitive position and overall business performance. They use factor analysis revealing a number of quality management factors including top management philosophy, measurement and open organisation, process improvement efficiency, close to customers, close to suppliers, marketing process improvement, employee empowerment, employee training, and entering a quality control award. These factors were then regressed against the three measures of organisational performance. The findings show that quality management factors such as top management philosophy, measurement and open organisation have significant associations with business competitive position, whereas marketing process improvement and employee training have significant associations with customer satisfaction. The results also suggest that top management philosophy, measurement and open organisation, and marketing process improvement are associated with overall business performance.

Frank and Enkawa (2009), in this article purport to find out how economic processes influence customer satisfaction. They draft a conceptual framework accounting not only for customer satisfaction, but also for the perceived value of goods and services and quality expectations, two major antecedents of customer satisfaction. Instead of only analysing the relationship between economic growth and customer satisfaction, the study examines the separate impacts of economic growth and economic expectations on perceived value, quality expectations and customer satisfaction. This study finds that perceived value is positively
influenced by both economic growth and lagged economic expectations. The analysis reveals that customer satisfaction is positively influenced by economic growth and negatively by current economic expectations. There is a strong correlation between economic expectations and (overall and industry specific) quality expectations.

2.5) GAPS IN EXISTING LITERATURE
There are many gaps in the literature. As strategy is not given much importance in insurance related studies it was felt that a study dealing with competitive strategies pursued by the life insurance companies of India would provide new insights in this rather abandoned field. Although many studies have been done in the fields of insurance, competitive strategy and customer satisfaction, these topics are not studied in relation to each other. The studies in insurance can be broadly classified as done in the field of marketing of insurance, demand of insurance, economic growth and insurance, international insurance market, insurance intermediaries and effect of gender on insurance ownership.

Only a few researchers viz. Pfeffer (1965), Meidan (1982), Vanniarajan et al (2006) has suggested strategies for insurance companies. In India, insurance has a pivotal role to play as it provides social security to people. As there is low insurance literacy, there is widespread confusion for policy selection among customers (Puelz 1991, Vanniarajan et al 2006) and customers want constant communication with their insurance companies (Joseph, Stone 2003). A number of life insurance companies have started their operations in the market and many innovations in products, processes and distribution channels have been introduced by them.

There is much vibrancy in the market, but it has been overlooked by the researchers. As there is large number of companies in the market, there is intense competition among them. It would be worthwhile to study the kind of strategies used by them. Most of the studies in insurance in India end with the statement that there is a huge potential for insurance and insurance penetration and density is very low. There is a need to go beyond this and study the strategies which are followed by successful companies which distinguishes them from others. Porter’s generic strategies model has been used by many researchers to study different
industries and businesses but its applicability in insurance has yet to be seen. The customer satisfaction researchers have also studied various satisfaction in various services viz. banking, hospitals, hospitality etc., but they also skipped the field of insurance. Keeping in view the voids in literature, the research problem is developed and it is decided to study the competitive strategies in life insurance industry and also identify the factors which may affect customer satisfaction.
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