CHAPTER – II

LITERATURE REVIEW
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CUSTOMER EXPECTATIONS

In the initial stages of this research it was necessary to understand the learned view of Expectation as expressed in relevant journals of services marketing as well as related journals. There are some 300 + articles that were downloaded and sorted. This collection gave an insight on popular published terminology and views. The observation gradually emerged that more reading will marginally increase the current understanding as several repetitions were observed on references. Later research can easily refer back to these to create awareness and to interpret any post hoc research. It is now widely accepted that exceeding customer expectations is key to customer satisfaction, delight, and loyalty (e.g., Kotler 2000, p. 36). Accordingly, it is critical for marketers to find out about their customers’ expectations in advance because a failure to meet or exceed these expectations could lead to dissatisfaction and defection.

The current conceptualization of the service quality formation process has its roots in the service quality studies of Parasuraman et al. (1985) that led to the gap conceptualization of service quality and the development of the SERVQUAL instrument. The gap onceptualization of perceived service quality (PSQ), and the related disconfirmation conceptualization of consumer satisfaction/ dissatisfaction, have been the basis for a great deal of work on consumers’ evaluations of service. Both the gap and disconfirmation conceptualizations posit that evaluations are a function of the distance between perceived performance and expectations. High evaluations are thought to result from consumers perceiving the delivered service as being better than expected, and low evaluations are thought to result from consumers
perceiving the delivered service as being worse than expected. The managerial implications of these formulations include the practice of “under-promising and over-delivering”. In other words, firms should seek to lower consumers’ expectations (i.e. under-promise) in order to ensure they can exceed those expectations (i.e. overdeliver). Expectations are beliefs about the level of service that will be delivered by a service provider, and they are assumed to provide standards of reference against which the delivered service is compared (Zeithaml et al., 1993). Although service quality researchers originally viewed expectations as strictly a normative standard (e.g. Parasuraman et al., 1985, 1988), more recent studies suggest at least two additional types of expectations (Boulding et al., 1993; Zeithaml et al., 1993). Hamer (2006) found that rather than being a function of the gap between expectations and performance, service quality perceptions result from a process of confirmation. The managerial implications of a confirmation conceptualization suggest that under-promising (i.e. lowering consumers’ expectations) will result in lower quality perceptions; moreover, high expectations of service performance will be associated with high perceptions of service quality. Thus, rather than trying to maximize the delivered service expectations gap, practitioners who seek to maximize their clients’ perceptions of quality should attempt to eliminate this gap through the raising of expectations. To quote from Christopher Meyer and Andre Schwager as published HBR February 2007: Although few companies have zeroed in on customer experience, many have been trying to measure customer satisfaction and have plenty of data as a result. The problem is that measuring customer satisfaction does not tell anyone how to achieve it. Customer satisfaction is essentially the culmination of a series of customer experiences or, one could say, the net result of the good ones minus the bad ones. It occurs when the gap between customers’ expectations and their
subsequent experiences has been closed. To understand how to achieve satisfaction, a company must deconstruct it into its component experiences. Because a great many customer experiences aren’t the direct consequence of the brand’s messages or the company’s actual offerings, a company’s re-examination of its initiatives and choices will not suffice. The customers themselves—that is, the full range and unvarnished reality of their prior experiences, and then the expectations, warm or harsh, those have conjured up – must be monitored and probed.

Mary Jo Bitner who is a widely accepted authority in services marketing has this to say about Self-Service Technologies: ‘In this high-tech world, customers haven't changed—they still want good service.’ While technology has drastically altered the relationship between customers and firms, customers still want what they've always wanted: dependable outcomes, easy access, responsive systems, flexibility, apologies, and compensation when things go wrong. In other words, they still want service. Only now they expect this level of quality service from SSTs—such as automated voice-response systems, Internet-based retail and service delivery—where there may not be any interpersonal involvement with the company at all.

CUSTOMER SATISFACTION

Marketing is the king pin of all activities pertaining to business. Due to changes in the political, social, legal, and international environment, there is a change and increase in the number of sellers, which leads to competition in all areas of business, like product, price, place, promotion, etc.

The basic premises in marketing are straightforward:

- Better value for the buyer should lead to brand choice and satisfaction,
A satisfied buyer will eventually and for various reasons become a repeat purchaser and/or loyal buyer,

This satisfaction and buyer loyalty should result in improved marketing performance for a variety of reasons

The improved marketing performance should lead to better overall firm performance.

Service quality has become an increasingly important factor for success and survival in the banking sector. Provision of high-quality service aids in meeting several requirements such as customer satisfaction and its consequent loyalty and market share, soliciting new customers, financial performance, and profitability (Cui, et al 2003). Customer satisfaction is an important theoretical as well as practical concern for most marketers and consumer researchers, with customer satisfaction being considered the heart of success in today's extremely competitive world of business. Customer satisfaction is defined by Oliver (1997) as 'the consumer’s fulfilment response . . . a judgement that a product feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfilment, including levels of under- or over fulfillment'. Social psychologists, marketing researchers and students of consumer behaviour have extensively studied the concepts of customer satisfaction and dissatisfaction. The importance of satisfaction has created a proliferation of research on the topic, with more than 15,000 academic and trade articles having been published on the in the past two decades (Pizam and Taylor).

It is no surprise, then, that company mission statements are commonly created around the notion of customer satisfaction (Fournier and Mick).
There are several definitions of customer satisfaction in the marketing literature. It is generally accepted that satisfaction is a psychological state that results from consumer experiences after consumption. Additionally, the basic conceptualizations focus on either or both of two aspects: (i) the buyers’ initial expectations in relation to product attributes and (ii) the buyers’ perceptions of the product performance in relation to these expectations as per Turan (2002).

Also, it is worth noting that the measurement of satisfaction generally focuses on the product performance aspect rather than on expectations. As such, it may be suggested that a buyer’s ‘fulfilment response’, as derived from the performance of features or benefits of the product, is the vital aspect in defining satisfaction.

Over the last decades, the vast amount of research conducted on the antecedents and consequences of customer satisfaction has brought significant insights to the marketing field. In fact, as early as in 1992, Peterson and Wilson reported that the number of academic and trade articles published on customer satisfaction had passed a total of more than 15,000. With this level of academic interest the business and corporate world is sure to benefit from efforts of academicians.

More recent studies have found that consumer characteristics (e.g., age, sex, education, income, expertise) moderate the effects of satisfaction on repurchase intention and repurchase behaviour, and also the effects of satisfaction on share of wallet (Cooil). As previously mentioned, the notion of customer satisfaction is one of the phenomena most widely studied within marketing and consumer research. Being the focus of such a substantial amount of research implies that the theoretical knowledge established on the concept covers a variety of aspects, including a variety
of conceptualisations. According to Yi’s review, there are numerous specification levels for satisfaction, of which some are satisfaction with a product, satisfaction with consumption, satisfaction with sales representatives, satisfaction with specific product attributes or satisfaction with pre-purchase evaluations. Hence, satisfaction might be viewed as a general concept applicable to different levels of analysis, depending on the research question at hand.

It is widely accepted that superior service performance leads to higher customer satisfaction and positive word-of-mouth. Conversely, there is ample evidence that service failures have a negative impact on satisfaction and word-of-mouth. Despite the large and still growing literature on complaint handling, service recovery and customer satisfaction, knowledge about how customers of financial services perceive a service failure is very limited. This led to focus briefly on service recovery mechanisms that in turn led to a research paper devoted exclusively to the phenomena “service recovery paradox”. During the later part a separate section is devoted to this.

Customer satisfaction and customer value are pivotal but at the same time elusive concepts in services marketing theory. Market share and ultimately corporate profitability depend heavily on perceived customer value. Holbrook (1994) goes as far as stating that value can be considered ‘. . . the fundamental basis for all marketing activities’.

As a consequence, customer value is a topic attracting keen and mounting interest to managers and researchers.

**EXPECTANCY/DISCONFIRMATION MODEL**

Current research on consumer satisfaction / dissatisfaction is typically rooted
in the expectancy / disconfirmation model. Embedded in the marketing and consumer behaviour literature, disconfirmation is highlighted as having the greatest impact on satisfaction. Disconfirmation deals with assessing prior expectations on the part of the consumer. The expectancy disconfirmation model of consumer behaviour has been widely cited for its application and ability to effectively describe satisfaction levels in a consumer behaviour context. This modelling is relied upon in this research.

POSITIONING OF LITERATURE ON SERVICE CHARACTERISTICS

SERVICE QUALITY

Service quality is typically conceptualized as a consumer evaluation involving comparisons of expectations and perceptions of a service. Parasuraman, Zeithaml, and Berry (1994a) describe expectations as bi-level; that is, adequate expectations (the level of service the customer will accept) and desired expectations (the level of service the customer hopes to receive) exist alongside each other. The difference between the two is the zone of tolerance. If perceived service falls below adequate expectations, poor perceived service quality will result; between the two levels of expectations, adequate service quality will result; and above the desired expectation level, superior service quality will result.

Service exchanges take place in a social and economic context where norms and values determine the appropriateness of service process features and, in particular, employee behaviors (Winsted 2000). Culture reflects the norms and values of a society.

There are, therefore, cross-cultural variations in what is expected, or
important, to consumers in service delivery.

Attempts to understand and explain cultural differences in service quality expectations, and relationships between perceptions and overall quality assessments, may be impeded by the presence of response styles. A further impact relates to the assessment of “gaps” or a “zone of tolerance” in service quality evaluation. For managers, their conclusions have implications relating to the use of research findings as a basis for market segmentation, service design, staff training, and other resource allocation decisions. In particular, the authors question the use of such research as a basis for comparative service evaluation across cultures.

Many cross-cultural service quality studies adopt Hofstede’s (1980) cultural dimensions of individualism–collectivism and power distance as an approach to explaining differences in the five factor framework of service attributes (reliability, responsiveness, assurance, empathy, and tangibles) developed by Parasuraman, Zeithaml, and Berry.

Consumers from individualist cultures have higher service expectations generally (Donthu and Yoo 1998), particularly emphasizing outcome (or reliability) rather than process (Mattila 1999). Consideration of process elements highlights responsiveness (willingness to help and prompt service), and particularly speed of service, as an attribute valued by Western individualist cultures (Malhotra et al. 2005). Eastern, collectivist cultures, however, are more tolerant of failure (Imrie, Durden, and Cadogan 2000), emphasizing personal relationships and the human interaction elements of service such as assurance (knowledge and courtesy of employees and ability to inspire trust and confidence) (Raajpoot 2004) and empathy (individualized attention and convenience). Although Donthu and Yoo (1998) suggest
that individualist consumers have higher expectations of both assurance and empathy, others (Furrer, Liu, and Sudharshan 2000) suggest that this is a measurement issue. After assessing the relative importance of attributes, these latter authors argue that assurance and empathy are more important to consumers from collectivist cultures. Additionally, disparities with respect to the empathy factor may be attributable to the combination of individual/personal attention (similar to assurance) and convenience (similar to responsiveness) in the perceptions of consumers. The role of tangibles is less clear and it has been suggested that tangibles, such as the appearance of staff and facilities, are more important to Westerners (Mattila 1999); to consumers in developing countries (Kettinger, Lee, and Lee 1995); or to “medium individualists” (Furrer, Liu, and Sudharshan 2000). These last authors highlight the relationship between tangibles and power distance (i.e., the acceptance of inequality of power distribution in a society; Hofstede 1997), illustrating how this may differ according to the consumer’s position relative to the service provider.

**BANKING INDUSTRY AND OTHER SERVICE INDUSTRIES**

In the banking industry, as in other service industries, providing superior service quality enhances customer satisfaction and contributes to profitability. Superior service quality lowers customer defection, enhances customer loyalty, provides opportunities for cross-selling, increases word-of-mouth recommendation, and enhances corporate image (Arasli et al., 2005; Baumann et al., 2007; Cronin et al., 2000; Ehigie, 2006; Jun and Cai, 2001; Nguyen and Leblanc, 1998; Wang et al., 2003).

A great deal of research exists on service quality in the banking sector. To measure service quality and identify the dimensions that customers consider in
evaluating bank services, the most commonly used research instrument is SERVQUAL. Studies on bank service quality have been conducted in a variety of countries, including: Canada (Bahia and Nantel, 2000); the United Arab Emirates (Jabnoun and Al-Tamimi, 2003); China (Lam, 2002; Guo et al., 2008); South Africa (Mels et al., 1997); Cyprus (Karapte et al., 2005); the UK (Aldlaigan and Buttle, 2002); Nigeria (Ehigie, 2006); South Korea (Chi Cui et al., 2003); Kuwait (Othman and Owen, 2001); Australia (Avkiran, 1994; Baumann et al., 2007); and Malaysia (Amin and Isa, 2008), to name just a few.

SERVICE RECOVERY PARADOX

ROLE OF SERVICE SECTORS IN ECONOMY

Service sectors have vital role in economy of developed as well as developing countries. Economies throughout the world are laying emphasis on it and the GDP contributions of service sector in most of the countries are growing in upward direction. It has been of great importance both to academicians and practitioners to zero the factors that constitute service failure. The need of the hour for the service providers is to provide efficient and defect free services. The service failure results into dissatisfaction and disloyalty towards the provider. To mitigate the effects of service failure we have a weapon called service recovery. Researchers have found that zero defect services are not possible practically, so use of service recovery process gives a chance to bring back the loyalty and trust of the customer. More over researchers have found that most of the service provider loose 10% to 15% customers yearly. If these customers can be retained, they can contribute to higher profit. So the business houses should also give much weightage for retention of customers, as it gives in acquiring new clients.
The occurrence of superior satisfaction after a failure and subsequent recovery being higher than without failure having occurred or than that of pre-failure period is the “service recovery paradox”. At best this can be called an observed phenomenon where post-failure customer satisfaction levels exceeding pre-failure customer satisfaction levels. The term Service Recovery Paradox was coined by McCollough & Bharadwaj in 1992. The service recovery paradox is not a new subject, but since its very existence is questionable, research is scarce. Padmakali & Prabuddha (2012) studied this phenomenon in its complete current context and came out with concise understanding for both academics and practionnaires. With the right activities, companies can utilise the service recovery paradox phenomenon to gain satisfaction, trust, and loyalty of the consumer.

The emergence of conflicts between consumers and companies and their management, inherent to longstanding relationships, leads to, for the most part, the maintenance or the breakdown of consumer trust in the company. Conflict situations, particularly regarding complaint episodes, seem to be critical to trust because there is the perception that it is in adversity that partners are put to the test.

**RELATIONSHIP OF TRUST**

Trust is a concept studied in various disciplines and, as a result, there are different definitions of trust. Usually, trust is seen as an expression of security between partners when making an exchange, or in another type of relationship (Garbarino & Johnson, 1999), as a belief that the partner in a negotiation will not exploit or take advantage of the other's vulnerability (Dwyer, Schurr, & Oh, 1987) or as a willingness to rely on an exchange partner in whom one has confidence (Moorman, Deshpandé, & Zaltman, 1993). Consumer trust is defined here as “the
expectations held by the consumer that the service provider is dependable and can be relied on to deliver on its promises” (Sirdeshmukh, Singh, & Sabol, 2002, p. 17). There is an agreement among researchers regarding the conditions in which trust becomes relevant. One such condition is the presence of risk, which refers to the perceived probability of loss. Uncertainty as to whether the other's actions will be appropriate or not represents a source of risk. Trust would help reduce uncertainty and risk in transactions. The second condition necessary for the emergence of trust is interdependence, where the interests and objectives of one party cannot be attained without trust in the other party.

Consumer trust in the service provider seems to be formed around two distinct facets – trust in the employees and trust in the firm (Sirdeshmukh et al., 2002). In most services, these facets are distinct nodes and the customer forms independent judgments during the course of a service encounter. These differences may occur because the inferential basis of evaluations is different; trust in the employees is formed by perceptions of the employees' behavior demonstrated during work sessions, whereas judgments regarding trust in the company are essentially based on the policies and practices governing the exchange. As a consequence, it is plausible that consumers hold different judgments about trust in relation to the employees and the company as a whole.

Smith and Bolton (1998), employing a scenario based experiment, report that cumulative satisfaction and patronage intentions increase above pre-failure levels when respondents are very satisfied with the recovery efforts.

**OCCURRENCE OF SERVICE FAILURES**

Service failures occur when the service providers do not live up to the
customer's expectancy. Service recovery research and its implementation is still in infancy stage as far as business tradition is concerned. Service providers are yet to be made understood that service recovery is not a expenditure and time waste process but a tool to create loyal and satisfied customers. Not only this, it is much cost effective way of endorsement as compared to companies spending on advertising. It can do wonders if systematically used. To use service recovery service provider should be first clear about the failure and recovery process should be designed according to the service failure type.

THE REASONS FOR MIXED RESULTS OF "SERVICE RECOVERY PARADOX"

"Service recovery paradox" is an interesting concept and research conclusions on this subject were contradictory, confrontational, and with mixed beliefs, thereby making it even more interesting. This subject becomes complicated as it has a direct link with individual perception, likings and behaviour. Some reasons which could be found for mixed results are given below:

1. It is difficult to detect even if it exists (Michel, 2001)
2. It is rarest of rarest event. (Boshoff, 1997; Hart et al., 1990)
3. Methodology is a problem; researchers could not find the approach to detect it. (Exploratory, experimental. Cross-sectional, Longitudinal, Meta-analysis, almost all concluded with mixed result).
4. Service recovery paradox is not uniformly defined in the studies.
5. Research is scarce and very few sectors have been evaluated.
7. This subject relates to individual behaviour and satisfaction. First the failure situation is uncommon, and secondly for satisfying all customers we cannot use the same recovery parameters.

8. There is need to conduct this study in a large database which is a big job.

9. A good recovery becomes the expected action of a customer when encountering the next failure. The customer would not expect anything less than the previous action.

10. The complainers are not always truthful.

11. Even the best recovery is of no use when delayed.

CONSECUTIVE UNSATISFACTORY RECOVERIES

If failure can occur in service delivery customers will be prone to multiple failures over the course of a relationship. James G. Maxham et al (2002) suggest that though satisfactory recoveries can produce a "recovery paradox" after one failure, they do not trigger such paradoxical increases after two failures. Furthermore, "double deviations” can occur following two consecutive unsatisfactory recoveries or following an unsatisfactory recovery in response to a second failure.

ELUCIDATION

Let us examine this from another angle – that of business development in general. To support the cause of lost customer a separate section is devoted here as well. We know that most dissatisfied customers decide not to complain (Voorhees et al., 2006) rather they exit the service instead (Bodey and Grace, 2006). Companies, however, should encourage dissatisfied customers to complain so that they can solve the problem and retain the customer (Tronvoll, 2008). Companies who do not rise to
the challenge of complaining customers are turning down the important opportunity of reclaiming and improving a relationship (Rothenberger et al., 2008). Customer complaints are a valuable source of important market intelligence which companies should use to learn from the complaint in general and to correct the root cause of the problem and to improve the service or product in particular (Brown et al., 1996; McCollough et al., 2000; Priluck and Lala, 2009; Vos et al., 2008).

Unfortunately, many companies do not pay sufficient attention to handling complaints effectively (Homburg and Fürst, 2007; Stauss and Schoeler, 2004). Moreover, research by authors such as Lewis and McCann (2004), Naylor (2003), Andreassen (2001) and Tax and Brown (1998) indicates that the majority of complaining customers are dissatisfied with the company’s complaint handling efforts. It seems that the issue of effective complaint handling is still not adequately addressed by businesses. In an increasingly service-oriented world economy one might be surprised by this apparent disregard of customer complaints, especially when the seriousness of customer dissatisfaction in the short and long term is considered: Negative word-of-mouth (Blodgett et al., 1995; Lerman, 2006) and switching to competitor firms (Homburg and Fürst, 2005), inevitably lead to the high costs of acquiring new customers (Hart et al., 1990) if customers have alternatives available, if switching barriers do not exist, and if customers do not have loyal feelings towards the company (Colgate and Norris, 2001). On the other hand, a positive approach to dealing with customer complaints should help to maintain customer relationships and generate positive communication about the company (Boshoff and Allen, 2000; Stauss, 2002). Importantly, repeat purchases by established customers usually require up to 90 per cent less marketing expenditure than do purchases by first time buyers (Dhar and Glazer, 2003).
After the cited literature review here and other works that have not quoted here, the researcher gathered the view that the previous work in this field has not touched upon the research question and research objectives of this study. Other studiers did not have significant sign of similarity hence a fresh look was required and one felt justified with fresh effort.

RESEARCH QUESTIONS

To solve the problem of identifying customers’ expectation and their comparative strength in affecting customers’ satisfaction, the problem is divided into three major questions, which are as follows:

1. What are the major customers’ expectations from a banker?
2. Is there any order or sequence of factors based on their importance? If yes, then what is the comparative strength of these factors (of expectation)?
3. Whether demographic variables (age, gender, education, income and occupation) affect customers’ expectations from a banker or not?

RESEARCH OBJECTIVES

The study has following objectives:-

- To identify factors affecting customer expectation from retail banker
- To examine comparative strength of these factors
- To evaluate influence of demographic variables on customers’ expectations from a banker.