

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

This chapter discusses the literature review concerning the service quality dimensions, perceived value, customer satisfaction and customer loyalty as well as their interrelations with each other. Also presented in this chapter is the current model by previous researchers in relation to service quality, customer perceived value, customer satisfaction and customer loyalty.

#### **2.2 OVERVIEW OF CONSTRUCTS**

##### **2.2.1 Service Quality**

According to Parasuraman, Berry and Zeithaml (1985, 1988), perceived service quality is the result of the consumer's comparison of expected service with the service received. There are five dimensions of service quality: (a) reliability, (b) responsiveness, (c) assurance, (d) empathy, and (e) tangibility. The dimensions of services quality are identified by researchers studying several different service categories: (a) appliance repair, (b) retail banking, (c) long-distance telephone service, (d) securities brokerage, and (e) credit card companies. Parasuraman, Zeithaml & Berry (1988) had stated that measuring perceived service quality involves the level of comparison of what a customer should expect; whereas

measuring satisfaction involves the appropriate comparison of what a customer would expect (Cronin & Taylor, 1992). Close examination of scale items for each dimension reveals that a majority of all the items relate directly to the human interaction element of service delivery.

*Tangibility* includes the appearance of physical facilities, equipment, personnel, and communication materials. The overall condition of the physical surroundings is tangible evidence of the care and attention to details demonstrated by the service provider. The assessment of this dimension can extend to the conduct of the other customers being provided the services, such as noisy guests in the next room at a hotel.

*Reliability* is the ability to execute the promised service accurately and without fail. Reliable service performance is a customer expectation and means that the service is accomplished on time, every time, in the same manner, and without errors. For example, receiving their mail at approximately the same time each day is important to certain people. Reliability extends into the back office, as well as where accuracy in billing and record keeping is expected.

*Responsiveness* is the willingness to help customers by providing prompt services. Keeping customers waiting for no apparent reason creates unnecessary negative perceptions of service quality. In the event of a service failure or interruptions, the ability of the service provider to recover quickly with professionalism can create very positive perceptions of quality. For serving

complimentary drinks on a delayed flight can turn a potentially poor customer experience into one that is remembered favourably.

*Assurance* dimension relates to the knowledge and courtesy of customer service staff and their ability to express confidence and trust. The assurance dimension includes the competence to perform the service offered, politeness and respect for the customer, effective communication with the customer, and the general attitude that the server has the customer's best interest at heart. On the other hand, *empathy* is the provision of caring demonstrated by the customer service staff and individualized attention provided to customers. Empathy includes approachability, sense of security, and the effort to understand customer's needs.

In order to operationalise the service quality construct, Parasuraman et al. (1985, 1988, 1994) had made use of qualitative and quantitative research, following generally accepted psychometric procedures. Their research had resulted in the progression of the original 22-item SERVQUAL instrument, which is one of the most widely-used operationalisations of service quality. The contention by the developers of SERVQUAL that the instrument can be applied to determine the service quality offering of any service firm has led to its extensive adoption (Dabholkar et al., 1996). The SERVQUAL scale is based on the difference in scores between customer expectations of service and their perceptions after receiving the service. Initially, Parasuraman et al. (1985) focused on the ten determinants of service quality. However, after two stages of scale purification, they reduced the ten determinants to five dimensions of service quality:

tangibles, reliability, responsiveness, assurance, and empathy (Parasuraman et al., 1988).

However, few prior literatures have raised criticisms on the SERVQUAL model (Churchill Jr., Brown and Peter, 1993; Cronin Jr. and Taylor, 1994 and Buttle, 1996). Firstly, there was little evidence that customers assessed service quality through the disconfirmation paradigm (i.e. measuring the gap between service expectations and actual service performance). Secondly, they also argued that SERVQUAL had been inaptly based on an expectations-disconfirmation model rather than an attitudinal model of service quality. Cronin Jr. and Taylor (1994) pointed SERVQUAL out as “hesitance to call perceived service quality an attitude”. Thirdly, according to Buttle (1996), SERVQUAL instrument failed to capture the dynamics of changing expectation. Therefore, performance-minus-expectations was deemed as an unsuitable basis to measure service quality (Cronin Jr. and Taylor, 1994). Teas (1993) further argued that because the service quality expectations concept might have discriminant validity shortcoming (i.e. expectations does not measure service quality as well as it is expected to), the perceptions-minus-expectations service quality measurement framework could be a misleading indicator of service quality through customer perception. Thus, he recommended by eliminating the expectations measure, the SERVQUAL model could be improved, by relying solely on the perception component.

For this reason, Cronin then argued for the superiority of the performance-based-only (SERVPERF) measures of service quality as compared to the

“perceptions-minus-expectations” measures (Cronin Jr. and Taylor, 1994). Despite the fact that SERVQUAL is the more commonly used framework since its introduction as it has been used longer, this research used the SERVPERF model. SERVPERF measures are based only on consumers’ perceptions of the performance of a service provider, which explain more of the variation in service quality and it assess service quality without relying on the disconfirmation paradigm. Thus, it would be able to provide a more convergent and discriminant valid explanation of service quality construct. While using SERVPERF, it is noted that while Cronin and Taylor (1992) have argued strongly in defence of SERVPERF, its scale has yet to be empirically tested in as many industries as has SERVQUAL.

### **2.2.2 Perceived Value**

Creating perceived value for customers can be deemed as a key success factor for all service firms. According to Khalifa (2004), customer value construct has gained appreciation in numerous streams of marketing literature in recent years and some of the more important customer value ideas that have been discussed over the past 15 years are being re-examined.

Perceived value is defined as the results or the benefits customers receive relative to total costs incurred, as perceived value is the difference between perceived benefits and costs (McDougall and Levesque, 2000). Zeithaml (1988) had examined the consumer’s perception of value through an exploratory, qualitative study and defined it as follows: (1) value is low price; (2) value is

whatever I want in a product; (3) value is the quality I get for the price I pay; and (4) value is what I get for what I give. Then, Zeithaml (1988) further captured the essence of the four expressions into a definition: “perceived value is the consumer’s overall assessment of utility of product based on perceptions of what is received and what is given.”

Perceived value is considered as customer recognition and appreciation the utility of a product that is given by a service provider that may fulfil his/her expectation (Foster, 2004; Heininen, 2004; Walker et al., 2006). Meanwhile, in a service management context, the ability of an organization to use responsiveness, assurance and empathy in delivering services will increase customers’ perceptions of value; and this may lead to higher customer satisfaction (Sureshchandar, 2000; Sureshchandar et al., 2002).

In a study in the financial services industry, Roig et al. (2006) found that the principle source of competitive advantage is for companies to conceive an offer that provides customers with a perceived value higher than that of the competition. Hence, the net value received can be considered as the competitive edge that can lead to brand recognition, loyalty and/or product/service preference.

### **2.2.3 Customer Satisfaction**

According to Oliver, (1980), customer satisfaction results from experiencing a service quality encounter and comparing that encounter with what was expected. Satisfaction can be conceived as an attitude, from an operational definition point of view, because it can be assessed as the combined level of satisfaction with various attributes of a product or a service (Churchill and Surprenant, 1982). According to Yi (1990), customer satisfaction can be viewed as an attitude as there is sufficient evidence supporting it. Meanwhile, according to LaTour and Peat (1979), satisfaction is a post-decision experience construct, whereas attitude is a pre-decision construct (Caruana, Money and Berthon, 2000).

Customer satisfaction can be defined as a response of consumer's fulfilment; i.e., it is a judgment whether "a product or service feature, or product or service itself, provides a pleasurable level of consumption-related fulfilment" (Oliver, 1997; Zeithaml and Bitner, 2000). As customer satisfaction reflects the degree of a customer's positive feeling about a service provider, it is important for service providers to understand customers' perception of their services because a high level of customer satisfaction do have a positive effect on customer loyalty (Deng, Lu, Wei and Zhang, 2009).

According to Tung (2004), the SERVQUAL model provides a theoretical basis for exploring the relationship between service quality and customer satisfaction and expectations play a significant role in customer satisfaction. Jones et al. (2003) emphasised that, "when expectations are met or exceeded, customers report

higher levels of satisfaction.” There are numerous previous studies that had investigated the concept of satisfaction on service setting (e.g. De Ruyter et. al., 1997; Fornell, 1992). Customer satisfaction can be assessed based on the customer’s satisfaction attitude on various attributes of the product or service (Churchill & Surprenant, 1982). Customer satisfaction depends on a variety of factors, including perceived service quality, customers’ mood, emotions, social interactions, and other experience-specific subjective factors (Rust and Oliver, 1994).

There has been much debate on whether service quality dimensions are the antecedents of customer satisfaction, according to prior research (Cronin and Taylor, 1992; Zeithaml, Berry and Parasuraman, 1996). Nevertheless, there are some empirical studies, which have shown that service quality is related to customer satisfaction (Cronin and Taylor, 1992; Levesque and McDougall, 1996; Taylor and Baker, 1994; Zeithaml et al., 1996; McDougall and Levesque, 2000). There were also studies on the mobile phone service markets, which suggested that service quality positively affects customer satisfaction (Kim et al., 2004; Kuo et al, 2009; Tung, 2004; Turel and Serenko, 2007). In addition, Brady and Robertson (2001) had confirmed the antecedent role of service quality with respect to customer satisfaction in their research.

Existing models of customer satisfaction that are based on the disconfirmation-of-expectations paradigm (e.g., Cadotte, Woodruff, and Jenkins 1987) have hardly ever focused on the role of customer perceived value as an antecedent of customer satisfaction. There have been several literatures measuring the

relationships between perceived value and customer satisfaction. The service management literature had argued that customer satisfaction is the result of a customer's perception of the value received in a transaction or a relationship (Heskett et al. 1997), while the social science literature had indicated that cognitive thought processes trigger affective responses (Weiner, 1986), suggesting that customer perceived value judgments affect perceptions of satisfaction.

According to Rust and Oliver (1994), value is an encounter-specific input to customer satisfaction. The ACSI (American Customer Satisfaction Index) model in Fornell et al.'s (1996) study demonstrated that "customer satisfaction is more quality-driven than value- or price-driven"; nevertheless, perceived value also affects customer satisfaction. In their research, Anderson, Fornell, and Lehmann (1994), and Ravald and Grönroos (1996) claimed that value is related to customer satisfaction. Also, Cronin et al. (2000) showed that perceived value is a significant predictor of satisfaction. In addition, Fornell, Johnson, Anderson, Cha, and Bryant (1996) and McDougall and Levesque (2000) stated that perceived value directly and positively influences customer satisfaction.

Previous empirical studies investigating the relationship between perceived value and customer satisfaction in the context of the mobile phone service market have found considerable evidence that perceived value directly influences customer satisfaction (Kuo et al, 2009; Tung, 2004; Turel and Serenko, 2006; Wang et. al, 2004).

#### **2.2.4 Customer Loyalty**

Customer loyalty can be defined as the entirety of feelings or attitudes that would influence a customer to consider re-purchase. It is suggested in marketing literature that customer loyalty can be defined in two distinct ways (Jacoby and Kyner, 1973). The first one defines loyalty as an attitude. Different feelings create an individual's overall attachment to a product, service, or organization and these feelings define the individual's (purely cognitive) degree of loyalty (Fournier, 1994). The second definition of loyalty is in terms of behavioural. Illustrations of loyalty behaviour include keeping on to obtain services from the same supplier to increase the scale or scope of the relationships, and also the act of recommendation (Yi, 1990). Customer loyalty is the consequence of customer satisfaction and satisfied customers may use mobile phone services more, and they may be more likely to continue their patronage and endorse the service to their friends and relatives (Zeithaml et al., 1996). Fornell (1992) also supported that higher customer loyalty depends mainly on higher customer satisfaction.

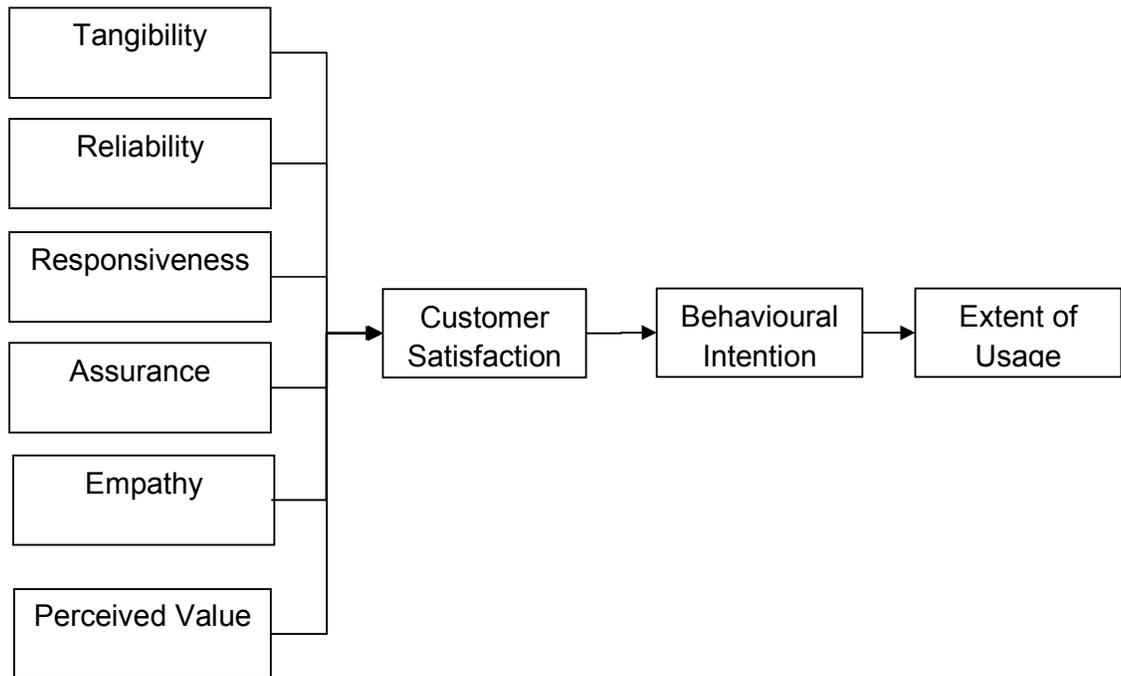
Customer loyalty has a powerful impact on firms' performance and is considered an important source of competitive advantage by many companies (Heskett, Sasser, and Schlesinger, 1997; Rust, Zeithaml, and Lemon, 2001; Woodruff, 1997). The outcomes of superior customer loyalty in service firms are increased revenue, reduced customer acquisition costs, and lower costs of serving repeat purchasers; thus lead to greater profitability (Reichheld 1993; Reichheld and

Sasser, 1990). Indeed, customer loyalty constitutes an underlying objective for strategic market planning (Kotler, 1997).

### **2.3 RELATIONSHIP BETWEEN THE CONSTRUCTS**

Reviewing previous research serves as the guidelines in order to develop the proposed theoretical framework for this study. Tung (2004) has concluded in her study of the impact of service quality and perceived value on satisfaction, intention and usage of short message service (SMS). Figure 2.1 shows the framework used in her study. The results demonstrate that three dimensions (tangibility, empathy and assurance) in SERFPERF did affect the level of customer satisfaction even though some of the relationships are weak. The research also has proven that customer satisfaction did have a positive relationship with customer behavioural intention to continue using the SMS. The results of the service quality/customer satisfaction and customer satisfaction/behavioural intentions relationships tested were similar to the result shown by Cronin and Taylor (1992). The relationship between perceived value and customer satisfaction was also consistent with suggestions from Fornell et al. (1996) and Cronin, Brady and Hult (2000).

Figure 2.1: Model for Service Quality and Perceived Value on Satisfaction, Intention and Usage of Short Message Service (SMS) (Tung, 2004)



## 2.4 CONCLUSION

This chapter has identified factors that influence service quality, perceived value, customer satisfaction and customer loyalty in telco service centre. This chapter also discussed the relationship of the constructs from previous research. The proposed research framework and research hypotheses will be discussed in the next chapter.