CHAPTER 2

LITERATURE REVIEW

2.1   Introduction

If marketing of any service is going to be any successful, there must be obvious differences in quality among competing suppliers (Lovelock, 1992). In W. Edwards Deming's own word, this means, " find out what the customer wants". Consumer typically view customer satisfaction as a relative term based on their expectations and experiences. Customer satisfaction depends on how well the service that customers receive match with their expectations (Austin, 1992). Age, gender, ethnicity, and income shape many of the customers expectations (Webster, 1989).

Discontent from customers or low satisfaction rating are a result of poor services or long waits, impolite service provider, nonavailability advertised services, sales little or no product knowledge (Mayer and Morin, 1987).

2.2 Evolution of Services and the origin of Customer Satisfaction.

Services are normally defined as nonphysical products such as a doctor's diagnosis having unique characteristics. Their characteristics differ from a product in sense that services are not tangible (however today they are made more tangible), perishable, inseparable (customer and personnel providing service are not separable) and difficult to standardize.

Since mid-1980, many services previously considered non-tradable have been actively traded. The acceleration of global trade integration, measured as the ratio of trade to GDP, began in the mid-1980s. It was supported by the surge of Japanese overseas investment after the 1985 Plaza Accord, the trade

arrangements of European Union, the US-Canada free trade agreement, the Uruguay Round, particularly, the General Agreement on Trade in Services (GATS). In local content the introduction of AFTA and AICO have paved the way as well. With these trade guidelines many organizations have begun to set the foundation to redefine services.

Adam Smith, made a distinction between "productive" and "unproductive" labor By using the criterion that productivity depended upon "tangibility" which in turn was associated with the durability of the economic activity. Services thus become unproductive because they are generally perishable, cannot be stored in any viable commodity form.

Riddle in her book, "Service-Led Growth" in 1986 defined, "Services are economic activities that provide time, place, and form utility while bringing about a change in or for the recipient of the service."

1. the producer acting for the recipient
2. the recipient providing part of the labor
3. the recipient and the producer creating the service in interaction

The birth of Customer Satisfaction was as a result of the importance of determining whether services provided match up to customers needs and expectations. Over the years various objective tool were developed to make Customer Satisfaction measurements. Customer satisfaction measurements has its roots in the Total Quality Management movement, but was explored by marketing theorists from a social-psychological point of view.

Sir Henry Royce, the British car manufacturer, whose name is synonymous with quality, laud down the primary principles of customer satisfaction in 1906, when he postulated,

" Our interest in the Rolls-Royce cars does not end at the moment when the owner pays for and take delivery of the car. Our interest in the car never wanes. Our ambition is that every purchaser of the Rolls-Royce car shall continue to be more than satisfied "(Roll-Royce,U.K.)

Academics McCarthy (1960) and Kotler (1967) championed "consumer-oriented" marketing by determining what a target group of customers want, and then maximizing their satisfaction with the product or service.

Cordazo (1965) was one of the first marketing academics to investigate customer satisfaction. To assist in the understanding of impact of satisfaction on future buying behavior, Cardozo suggested the joint application of both Helson's "contrast effect" as well as Festinger's "cognitive dissonance".

Howard and Jagdish Sheth (1969) in their model of consumer behavior laid important foundations for the process model of satisfaction, which was developing in parallel with their work on consumers' prepurchase reconciliation of information and feedback.

Richard Oliver (1977,1980,1981) initiated a focus on the preceding of satisfaction, particularly the expectancy – disconfirmation sequence. Oliver used Helson's adaption theory to suggest that expectation fix a standard performance, providing a frame of reference for customers' evaluative judgements. Satisfaction was then viewed as a function of the baseline effect of expectations, modified by perceived disconfirmations.

Gordon Selfridge, an American journeyed to London in the late 1800s to create his own department store empire with the founding principle' "Customer is always right"(Cohen and Cohen 1980).

In 1987 the U.S. Congress, alerted to the decline in quality of American made products and services, decided to motivate companies to produce products and services of exceptional quality. Patterned after Japan's prestigious Deming Award, the Malcom Balbridge National Quality Award was instituted. The award, named after a previous Secretary of Commerce, is privately funded and administered by the National Institute of Standards and technology. One of the categories include service companies. The program has been established to recognize superior achievement in customer satisfaction.

The value of a focus on customer satisfaction is further evident in the practices of Balbridge Award winners, for example :

- Every six weeks, Xerox holds a Visitor Quality Day for customers at its Rochester, N.Y. headquarters.
- IBM Rochester designed its AS/400 minicomputer only after consulting with 250 customers.
- Solectron Corporation call on each of its 120 customers every week to inquire about on-time delivery and satisfaction with its products.

The primary goal of an organization should be the retention of customer. Ted Levitt stressed on the importance of customer satisfaction should be customer retention(Levitt 1985).

Schlesinger and Heskitt (1991) demonstrated the relationship between satisfied customers and employees with that of the Cycle of Good Service. See Figure 1., on page 13.
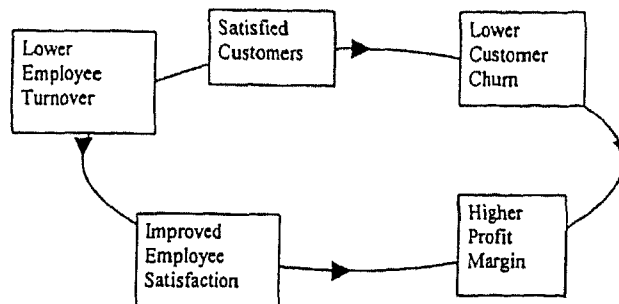
Lower Employee Turnover → Satisfied Customers → Lower Customer Churn → Higher Profit Margin → Improved Employee Satisfaction → (cycle back to Lower Employee Turnover)

Figure 1. The Cycle of Good Service

It is evident from the figure that satisfied customers tolerate higher margins that can justify better pay for employees, resulting in higher morale, lower turnover and producing more satisfied customers.

W. Edward Deming sought to help manufacturers improve the quality of their products and in doing so found that unless quality was manifested in ways that were relevant and perceptible to the customer, improvement efforts were wasted. Deming's entire improvement process is rooted in customer information and feedback. In elaborating his " Helix of Continuing Improvement ", Deming says this about consumer research,

" The main use of consumer research (customer satisfaction measurement) should be to feed consumer reactions into the design of the product, so that management can anticipate changing demands and requirements and set economical production levels. Consumer research takes the pulse of the consumer's reactions and demands, and seeks explanations for the findings......

(Demings 1993,pg177) ". Deming's Helix of Continuing Improvement is mirrored in the "spiral of progress in quality " created by J.M. Juran, another TQM pioneer. Deming further distinguishes three aspects of consumer research or customer satisfaction measurement (CSM) as follows:

1. Research for discovery of problems, such as reasons for dissatisfaction.
2. Research to obtain information on which to base prediction of the consumer's reaction to change in the product or services.
3. Research for quantitative of numbers and proportions of users that have these problems.

Juran adds that the three key questions of marketing research (CSM) should be the following:

1. What product (or services) features are of importance?
2. How does our product (or services) compare to competitors?
3. What is the significant differences in terms of demand or preference?
(Juran 1998,47)

2.3 Definition of Customer Satisfaction

According to a comprehensive review conducted by Yi(1993), customer satisfaction can be defined in two basic ways: either an outcome or a process. The outcome is the end-state from the consuming process. Yi observes that definitions vary with regards to level of specificity. They include:

- satisfaction with the product
- satisfaction with the purchase decision experience
- satisfaction with performance attribute
- satisfaction with the consumption experience
- satisfaction with the store or institution
- satisfaction with a pre-purchase experience

Customer satisfaction can also be classified as the customer's response to the evaluation of the perceived discrepancy between prior expectations and the actual performance of the product as perceived after it's consumption (Tse and

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Wilton 1988,20). Customer satisfaction is the objective tool for measuring service quality which is Nothing but the "perceptions" resulting from a comparison of consumer expectations with actual service performance" (Parasuraman,Zeithmal and Berry 1985).

2.4   Model of Satisfaction

Satisfaction is defined broadly as satisfactory postpurchase experience with a product to service given an existing prepurchase expectation. A majority of the satisfaction model have Oliver's 1980 model(Oliver1980). The model shown in Figure 2, below is a further advanced model by Churchill and Supernant (1982), which has become the core of so many later models.
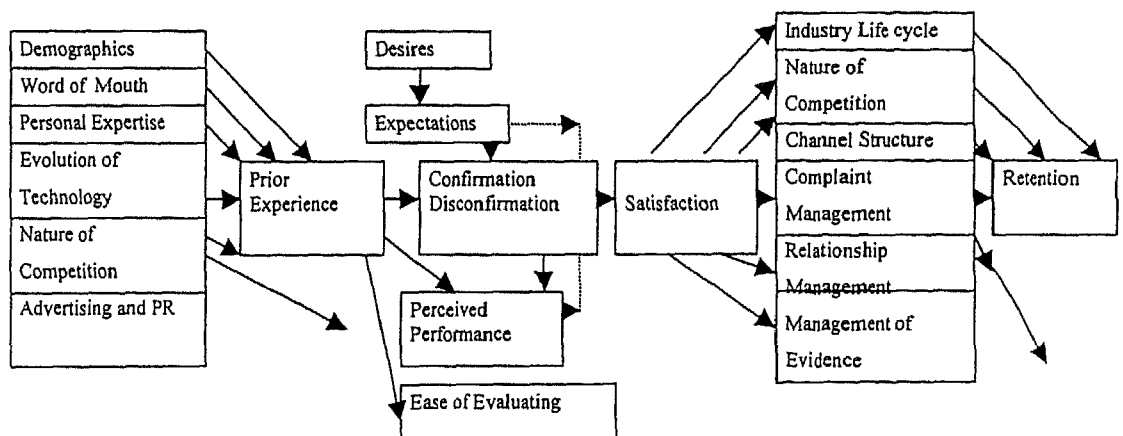

Figure 2   A Model of Customer Satisfaction

2.5   The Satisfaction Process

Olson and Dover (1979) defined expectation as beliefs about a product or service's attributes or preference at some time in the future.

Yi (1991) as explained earlier identifies two basic conceptualizations of expectations. One is a global perspective, a preconsumption belief about the overall performance of the product or service and the other is the process, which is internal to the customer.

Oliver and Bearden(1983) have observed, that there are two components of expectation: the level of performance expected, and the certainty of receiving that level of performance.

The heart of the satisfaction process is the comparison of what was expected with the product or service's performance. This process is described as the "confirmation/disconfirmation process". The other component of the confirmation/disconfirmation process is the objective and perceived performance.

Objective deals with conformance to a standard or design whereas perceived Performance the customer's recognition of performance. Anderson and Sullivan (1993) suggested the ease of evaluating performance as a major influence in the determination of satisfaction. They suggested that when the performance of the product or service is more difficult for customers to evaluate, perceived performance should be assimilated toward expectation.
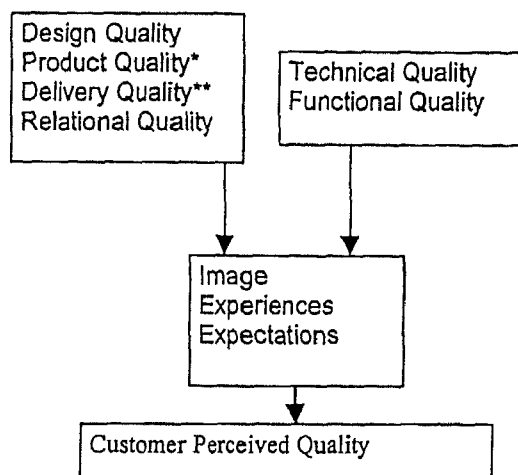
2.6   Models of Expectation

There has been numerous models developed in then in explaining the theory of expectations. This chapter would only the ones that are most frequently discussed and used.

2.6.1 Gronross-Gummerson Quality Model

Gronroos (1984) categorized service quality into two categories technical quality, primarily focused on what consumers actually received from the service; and functional quality, focused on the process of service delivery.

Figure 3: Gronroos – Gummersson Quality Model (1987)

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┌─────────────────────┐
│ Design Quality      │   ┌──────────────────────┐
│ Product Quality*    │   │ Technical Quality    │
│ Delivery Quality**  │   │ Functional Quality   │
│ Relational Quality  │   └──────────────────────┘
└─────────────────────┘
            │                      │
            ▼                      ▼
        ┌──────────────────────────┐
        │ Image                    │
        │ Experiences              │
        │ Expectations             │
        └──────────────────────────┘
                    │
                    ▼
    ┌──────────────────────────────────┐
    │ Customer Perceived Quality       │
    └──────────────────────────────────┘
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*   Invisible/Visible Noninteractive/Interactive

**   Own/Subcontracted

By classifying these services into the two divisions, service providers can concentrate their service strategies on both "store service" and "sales service." Store operation managers might be more involved with front-line employers in improving store service policies and personnel managers might work with the sales service aspects.

Store image is an important factor influencing store patronage (Berry, 1969). According to Webster (1989) demographic characteristics were a factor in consumers expectations of non-professional services.

2.6.2 SERVQUAL Model

A model designed to measure customers' perceptions of service quality, was developed by A. Parasuraman, V.A. Zeithaml and L.L. Berry, in their paper, "SERVQUAL : A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality, "Journal of Retailing, vol. 64, no. 1, spring 1988, pp. 12-40 for the measurement of consumers' perception of service. Their multi-item scale was found through empirical studies which covered five different services categories, namely, appliance repair and maintenance, retail banking, long-distance telephone, securities brokerage, and credit cards. These services represent a cross-section of industries which vary along key dimensions used to categorize services (Lovelock 1980, 1983).

This scale consists of 22 items or variables spread among five dimensions of quality (listed in order of declining relative importance to customers):

1. Reliability
2. Responsiveness
3. Assurance
4. Empathy
5. Tangibles

Reliability

Reliability is the ability to perform the promised service dependably and accurately. Reliable service performance is a customer expectation. That means the service, every time, is accomplished on time, in the same manner, and without errors. For example, receiving mail at approximately the same time each day is important to most people. Reliability extends into the back office where accuracy in billing and record keeping is expected.

Responsiveness

Responsiveness is the willingness to help customers and to provide prompt service. Keeping customers waiting for no apparent reason will create unnecessary negative perceptions of quality. In the event of a service failure, the ability to recover quickly with professionalism can create very positive perceptions of quality.

Assurance

The knowledge and courtesy of employees and their ability to convey trust and confidence is an assurance. The assurance dimension includes the following features: competence to perform the service, politeness and respect for the customer, effective communication with the customer, and the general attitude that the service provided , has the customer's best interests at heart.

Empathy

Empathy is the provision of caring, individualized attention to customers. Empathy includes the following features: approachability, sense of security, and the effort to understand the customer's needs.

Tangibles

Tangible is the appearance of physical facilities, equipment, personnel, and communication materials. The condition of the physical surroundings is tangible evidence of the care and attention to details exhibited by the service provider. This assessment dimension can extend to the conduct of other customers in the service, such as a guest in the next room at a hotel.

SERVQUAL measures consumers' perception of service quality depend on a very important assumption, that is service quality is the difference between customers' expected service and perceived service. In short, Service Quality (SQ) equals Perceived Service (PS) minus Expected Service (ES) and computed in equation as follows:

Service Quality	=	(Performance – Expectation	
SQ	=	PS	-	SQ

From this equation, SERVQUAL, actually measures 'GAP 5' of the Gaps' Model of Service Quality, which was developed by them in 1985.

SERVQUAL is an instrument that had been thoroughly tested for reliability by computation of coefficient alpha (Cronbach 1951). The process of purification was done according to recommendation by Churchill (1979) and computed by using the formula for linear combinations (Nunnally 1978) for the pooled data of all the five services. Thus SERVQUAL can be used to assess and compare service quality across a wide variety of firms or units within a firm. Appropriate adaptation of the instrument may be desirable when only a single service is investigated (A. Parasuraman, V.A. Zeithaml, and L.L. Berry, 1988). Customers use the five dimensions described above to form their judgement service quality, which are based on a comparison of expected service and perceived service. The gap between expected service and perceived service is a measure of service quality, satisfaction is either negative or positive.

2.6.3 Gap Model(Service Quality Gap)

In 1985, Parasuraman et al. developed the Gap Model of Service Quality, in their article, "Communication and Control Process in the Delivery of Service Quality". Figure 3, gives a schematic view of the Gap Analysis Model.
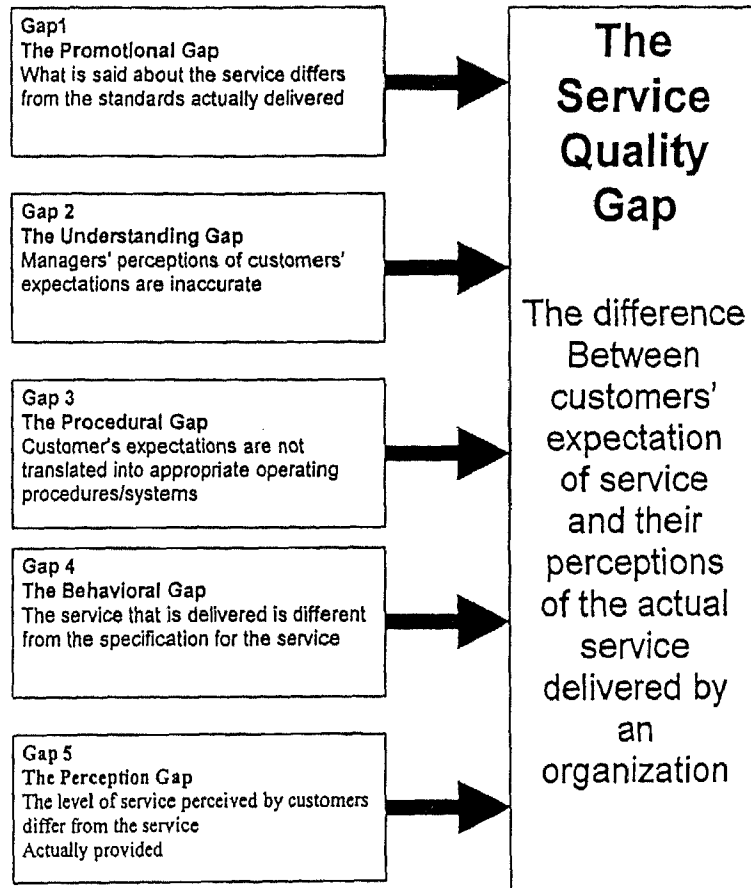
Gap1 The Promotional Gap What is said about the service differs from the standards actually delivered	→	**The Service Quality Gap** The difference Between customers' expectation of service and their perceptions of the actual service delivered by an organization	Figure 4: Service gaps
Gap 2 The Understanding Gap Managers' perceptions of customers' expectations are inaccurate	→		
Gap 3 The Procedural Gap Customer's expectations are not translated into appropriate operating procedures/systems	→		
Gap 4 The Behavioral Gap The service that is delivered is different from the specification for the service	→		
Gap 5 The Perception Gap The level of service perceived by customers differ from the service Actually provided	→		

The gap between customer's expectation and our experience in providing service.

2.6.4   Extended Model of Service Quality

From the Gap Model of Service Quality developed by Parasuraman et. Al (1988) Gap 5 is used to measure the service quality which is the difference between customers' perceptions of service quality and expectation of service quality. A further development of the original gap model is shown in Figure 5. This new model illustrates the inter-organizational factor, which effect the different gaps. It thereby facilitates an analysis of what caused the gaps and how they can be reduced.

Figure 5 – Extended Model of Service Quality
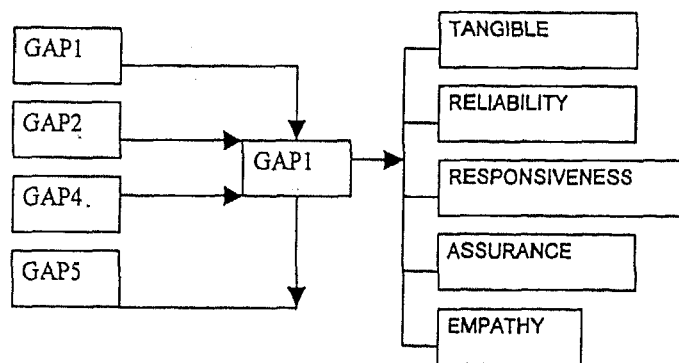
The gap is a function of the other four gaps, i.e.

| Gap 5 = f (gaps 1,2,3,4) |

2.6.5   SERVPERF – An Alternative to SERVQUAL

A longitudinal model developed by Bolton & Drew(1991) in contrast to Parasuraman's(1995,1988) cross-sectional survey provided useful insights on how a customer's perception of changes in service performance affects the global evaluation of service quality. Three survey waves were performed to sensitiveness of the components of service quality to the effects of a service

change. It was found that the average ratings of perceived quality changes slowly and is noticeable only after long run after service changes has taken place. The average ratings of perceived quality changes slowly, it becomes noticeable only in the long run after service changes has taken place.

Cronin & Taylor (1992) declared that the conceptualization and operationalisation of service quality (SERVQUAL) was inadequate. There is very little theoretical or evidence supporting the relevance of the expectation-performance gap as the basis for measuring service quality (Carman 1990). In fact, the marketing literature appears to offer considerable support for the superiority of simple performance based measure of service quality (Bolton and Drew 1991a,b; Churchill and Surprenant 1982; Mazis, Ahtola, and Klippel 1975; Wodruff, Cadotte, and Jenkins 1983). Bolton and Drew used the common assumption that service quality is analogous to an attitude as a basis to suggest that satisfaction is an antecedent of service quality.

Cronin and Taylor, suggested that the instrument to be called 'SERVPERF'. The difference between SERVQUAL and SERVPERF is that, the former measure service quality by having perception service (P) minus expectation (E), whereas SERVPERF measures only the performance. SERVPERF actually measures the perceived quality as in Parasuraman et. Al.'s model.

The advantages of using SERVPERF are that it only needs half of the number of items used in SERVQUAL for the same study and at the same time provides a higher degree of validity. SERVPERF is also superior for measuring service quality compared to SERVQUAL, weighted SERVQUAL or weighted SERVPERF.

This study would use GAP Model to determine the 5 gaps among all the Service Providers and see their relationship to the Satisfaction Index. The SERVQUAL

model will also be used to determine whether the dimensions prescribed are relevant to Malaysian context. Some of the questions from the SERVQUAL model could be used for measurement of Satisfaction Index. However because most of the Service Providers do not dispense service directly; instead they use others companies such as the Post Office, questions from the SEVQUAL could not be used.