

**CHAPTER 2**  
**LITERATURE REVIEW**

## **CHAPTER 2 – LITERATURE REVIEW**

### **2.1 Introduction**

This chapter will review the literature to identify the variables of this research and how it could assist in constructing the research framework for this study. The literature review show how past researches were conducted in examining the relationships between these variables leading to customer satisfaction and customer loyalty. These variables concern are as explain in the following sections.

#### **(A) Service Quality**

There are three well-documented characteristics of services which are intangibility, heterogeneity, and inseparability that must be acknowledged for a full understanding of service quality. (Parasuraman, Zeithaml and Berry, 1985). Parasuraman et al. (1985) undertook an exploratory qualitative study to investigate on the concept of service quality and focus group interviews with consumers and in-depth interviews with executives were conducted to develop a conceptual model of service quality. The most important insight from analyzing the executive responses is that a set of key discrepancies or gaps exists regarding executive perceptions of service quality and the tasks associated with the service delivery to customers and these gaps can be major hurdles in attempting to deliver a service which consumers would perceive as being of high quality.

Parasuraman et al. (1985) identified ten key categories which are labeled “service quality determinants”. They are: Reliability, Responsiveness, Competence, Access, Courtesy, Communication Credibility, Security, Understanding, Tangibles. Perceived service quality is the result of the consumer’s comparison of expected service with perceived service. According to Parasuraman et al. (1985), the position of a consumer’s perception of service quality on the continuum depends on the nature of the discrepancy between the expected service (ES) and perceived service (PS).

Furthermore, according to Parasuraman, Zeithaml and Berry (1988), delivering superior service quality is the critical factor of success for businesses in the 1980s and beyond. Parasuraman et al. described that perceived service quality is a global

judgment, or attitude, relating to the superiority of the service, whereas satisfaction is related to a specific transaction. Perceived service quality is viewed as the degree and direction of discrepancy between consumers' perceptions and expectations.

Parasuraman et al. conducted a quantitative research in 1988. They developed instrument for assessing customer expectations and perceptions of service quality in service and retailing organization. It has been known as SERVQUAL. They collapsed service quality dimensions from ten to five.

The dimensions are presented as per below:

Table 2.1: Dimension Definition

Tangibles	Physical facilities, equipment, and appearance of personnel
Reliability	Ability to perform the promised service dependably and accurately
Responsiveness	Willingness to help customers and provide prompt service
Assurance	Knowledge and courtesy of employees and their ability to inspire trust and confidence
Empathy	Caring, individualized attention the firm provides its customers

According to Parasuraman et al. (1988), the last two dimension (assurance and empathy) contain items representing seven original dimensions-communication, credibility, security, competence, courtesy, understanding/knowing customers, and access.

The study of service quality attributes in the retail banking sector in Bangladesh by Siddiqi (2011) suggests that SERVQUAL is a suitable instrument for measuring the bank service quality in the Bangladesh context and bank managers can use this instrument to assess the bank service quality in Bangladesh.

Service quality is considered as a key factor in customer satisfaction with his or her bank at the retail level. In retail banks, customers have unique needs and the exchange

of transactions between these customers and bank employees take place at the branch level and within any service company, the main features that customers consider when determining the quality are the service, rapid response, delivery times and cost (Soomro, Jatoi and Gilal, 2011).

Cronin and Taylor (1992) suggested that a performance-based measure of service quality included a scale that termed SERVPERF as an alternative to SERVQUAL scale. The performance-based measures were the service quality measures that based on customer's perception of a service provider's performance. They have conducted test on four types of service firms which are banks, pest control, dry cleaning, and fast food. According to the analysis, the SERVPERF (performance only) scale performed better than the SERVQUAL scale. SERVPERF is efficient compare with the SERVQUAL scale since it reduces by 50% the number of items that must be measured (44 items to 22 items).

Gronroos (1988) developed a conceptual model of perceived quality and the six criteria of good perceived service quality are presented. According to Gronroos (1988), in reality, customers often perceive quality as a much broader concept, and non-technical aspects may dominate the quality experience.

According to Siddiqi (2011), service quality is one of the critical success factors that influence the competitiveness of an organization and a bank can differentiate itself from competitors by providing high quality service. According to Rusk, Zahorik and Keiningham (1995), they modeled the relationship between service quality improvement efforts and profitability as a chain of effects.

Perceived quality is defined a consumer's judgment about the superiority or excellence of a product (Zeithaml, 1998). Gummesson (1992 as cited in Schneider and White, 2004), developed a typology of service dimensions that focuses more on the tangible aspects of service than does SERVQUAL or Gronroos'(1990) typology.

Qin and Prybutok (2009) in their study of service quality in fast-food restaurant using five dimension in the SERVPERF and recovery was included as one of the potential dimension of perceived service quality.

## **(B) Perceived Value**

According to Zeithaml (1988), customer perceived value is defined as the customer's overall assessment of the utility of a product based on perceptions of what is received and what is given. Based on her exploratory study, patterns of responses in expressions of value can be grouped into four definitions: (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.

Woodruff (1997) defined customer value as a customer's perceived preference for and evaluation of those product attributes, attributes performance, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations. Perceived value is related to the customer's overall evaluation on the differences between the benefits they received and the sacrifice they make (Woodruff, 1997).

There are two essential conceptions established with customer perceived value (CPV). First, CPV is a result from the consumers' pre-purchase perception (expectation), evaluation during the transaction (expectation versus received), and post-purchase (after-use) assessment (expectation versus received). Second, CPV involves a divergence between the benefits received and sacrifices given (Li and Green, 2011).

According to Bojanic (1996), "The notion of relative perceived value results in three possible value positions: (1) offering comparable quality at a comparable price, (2) offering superior quality at a premium price, or (3) offering inferior quality at a discounted price."

Khalifa (2004) proposed an integrative configuration of the concept of perceived value that included three complementary models: (i) customer value in exchange (which was a benefits/costs model); (ii) customer value build up (which focused on the benefits side of the value equation); and (iii) customer value dynamics (which reflected the dynamics of how customers evaluate the supplier's total offering).

Customer perceived value (CPV) is “the difference between the prospective customer’s evaluation of all the benefits and all the costs of an offering and the perceived alternatives” (Kotler and Keller, 2006).

### **(C) Corporate Image**

According to Gronroos (1988), the customers could see the way the firm operating and corporate and/or local image is therefore important to most services and it has an impact on the perception of quality. According to Keller (1993), it is a set of perceptions about a brand the consumer forms as reflected by brand association.

According to Kim and Kim (2005), good brand image not only indicates that the brand has a positive image but also exhibits a greater level of brand image strength compare to others. Zeithaml, 1988 and Shapiro, (1983 as cited in Selnes, 1993) suggest that the perceived quality of a product or service is related to the reputation associated with the brand name. Customers will only associate one product or one service with the brand (i.e. Pepsi, Avis, Federal Express and McKinsey), and thus the brand reputation is only measurable at the product level in some situations whereas in other situations, customers identify a bundle of products and services with a brand name (i.e. Philips, IBM and Citibank) (Selnes, 1993).

Corporate image is related to the various physical and behavioral attributes of the firm, and to the impression of quality communicated by each person interacting with the firm’s clients (Nguyen and Leblanc, 2001).

Many organizations spend time, resources and effort to build a strong image for their businesses and much money are spent to advertise their products and services to create a strong, impressive brand and donations and charity events are sponsored in order to create image of a socially responsible organization in the eyes of the public (Poon et al, 2000).

#### **(D) Customer satisfaction.**

Beerli et al. (2004) stated that customer satisfaction is a concept that has been widely debated in the literature and for which numerous definitions have been made, but researchers have yet to develop a consensual definition of this concept. Oliver (1997), notes that “everyone knows what satisfaction is until asked to give a definition. Then it seems, nobody knows”.

Oliver (1997) defined satisfaction as the summary psychological state resulting when the emotion surrounding disconfirmed expectations is coupled with prior feelings about consumer experience. According to Oliver (1997), customer satisfaction means customer reaction to the state of fulfillment, and customer judgment of the fulfilled state.

Oliver (1999) summarized satisfaction as pleasurable fulfillment and satisfaction is the consumer’s sense that consumption provides outcome on pleasure versus displeasure. Overall satisfaction is the consumer’s feelings in response to evaluations of one or more use experiences with a product (Woodruff, 1997). Satisfaction becomes a mechanism by which the consumer differentiates between businesses and what they offer. (Casalo et al, 2007).

Another definition is customer’s impressions after using a product or service (Jamal and Naser, 2002). According to Jamal and Naser (2002), customer’s satisfaction is a post exposure judgment made by customers towards a product or service after the product and service has been used. Dissatisfied customer are likely to switch brands and engage in negative word of mouth advertising and behaviours such as repeat purchase and word of mouth affect firm’s profitability.

According to Churchill and Suprenant (1982), conceptually, satisfaction is an outcome of purchase and use resulting from the buyer’s comparison of the rewards and costs of the purchase in relation to the anticipated consequences and operationally, satisfaction is similar to attitude in that it can be assessed as the sum of the satisfactions with the various attributes of the products or service.

## **(E) Customer Loyalty**

Some of the definitions in the literature suffer from the problem that they record what the consumer does but none taps into the psychological meaning of loyalty (Oliver, 1999). Oliver (1999) defined loyalty as a deeply held commitment to re-buy or re-patronise a preferred product or service consistently in the future, thereby causing repetitive same-brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior. Oliver (1999) also stated that customer loyalty as the in depth involvement of a customer, which triggers a rebuy intention of a preferred product or service.

Oliver (1999) stated further analysis needed to detect true brand loyalty requires researchers to assess consumer beliefs, affect, and intention within the traditional consumer attitude structure, considers that all three decision-making phases must point to a focal brand preference if true brand loyalty exists. Thus:

- (1) the brand attribute ratings (beliefs) must be preferable to competitive offerings;
- (2) this “information” must coincide with an affective preference(attitude) for the brand; and
- (3) the consumer must have a higher intention (conation) to buy the brand compared with that for alternatives.

Oliver (1999) stated the proposed of multibrand and attitude-based models lead to the cognitive-affective-conative representation of brand commitment and although not well researched, action inertia has been suggested as a fourth loyalty stage.

Loyalty is a consequence of consistent repeat patronage or repeat purchase frequency of a single store or brand as well as favorable attitude (Han and Ryu, 2009). According to the study on a model of customer loyalty in the retail banking market by Beerli et al. (2004), loyalty has been generally defined as repeat purchasing frequency or relative volume of same-brand purchasing. Customers may be loyal due to high switching barriers or lack of real alternatives and customers may be loyal since they are satisfied and would like to continue the relationship (Andreassen and Lindestad, 1998).

Behavioral, or purchase, loyalty consists of repeated purchases of the brand, whereas attitudinal brand loyalty includes a degree of dispositional commitment in terms of some unique value associated with the brand (Chaudhuri and Holbrook, 2001).

Based on the study on the behavioral consequences of service quality by Zeithaml et al. (1996), loyalty may be manifested in multiple ways such as by expressing a preference for a company over others, by continuing to purchase from it, or by increasing business with it in the future.

Rowley (2005) proposed a model and consisted of four categories of loyal customers which are captive, convenience-seekers, contented and committed. Captive customers continue to patronise a brand, service, or service outlet because they have no real choice, convenience-seekers' loyalty is driven by a range of convenience factors, contented loyals have a positive attitude to the brand, but are inertial in their behaviour and committed customers are positive in both attitude and behavior.

The definition of loyalty by Yin and Kannan (1999) in the study on consumer behavioral loyalty includes both exclusive loyalty and divided loyalty which represents a more complete definition of brand loyalty. The two loyalty measures includes hard-core loyalty which is the proportion of a product alternative's purchases that is accounted by customers who exclusively purchase that alternative and reinforcing loyalty which are the consumers who are potential switchers that could buy more than one product alternative, but exhibit divided loyalties among a few alternatives; that is they repeat purchase these alternatives to a significant extent.

## **2.2 Service Quality, Perceived Value and Corporate Image-Previous Empirical Research**

Khattab and Aldehayyat (2011) measure Jordanian hotels' service quality performance from the customer perspective using performance-only measurement scale (SERVPERF). The study supports that the performance-only measurement (SERVPERF) is a good predictor of service quality and sufficient.

Athanassopoulos (2000) conducted a study to examine customer satisfaction cues in retail banking services in Greece. The study was to assess the antecedents of customer satisfaction and the implications of customer satisfaction on the customers switching behavior and the results showed that customer satisfaction is an outcome of service quality.

Caruana (2002) proposed a mediation model that links service quality to service loyalty via the mediator customer satisfaction. The results of the research support that customer satisfaction plays a mediating role in the link of service quality and service loyalty. In this study, he suggested that other elements such as value and corporate reputation or image could be contributing to customer satisfaction.

Andreassen and Lindestad (1998) examine the role of corporate image in the formation of customer loyalty in the service sector. Hart and Rosenberger (2004) replicate the Andreassen and Lindestad study in Australia. In the study, Hart and Rosenberger reported that corporate image was found to have marginally significant direct influence on customer loyalty, though the total effects of corporate image (both direct and indirect through satisfaction) on customer loyalty are much more substantial.

There have been a large number of studies that focused on service quality and customer satisfaction issues, but studies on the relationship between service quality, perceived value, corporate image, customer satisfaction and customer loyalty in retail banking remained limited. Therefore this study aimed to explore on the relationship between service quality, perceived value, corporate image, customer satisfaction, customer loyalty and to determine whether customer satisfaction exist as a mediating factor through an empirical study towards the domestic retail banking sector.

## **2.3 Relationship among Variables**

### **(A) Relationship between service quality and customer satisfaction**

There is growing managerial interest in customer satisfaction as a means of evaluating quality (Anderson and Sullivan, 1993). Naeem, Akram and Saif (2009) discovered that service quality is a strong predictor for customer satisfaction. According to Beerli et al. (2004), service quality and customer satisfaction have been conceptualized as a distinct, but closely related constructs.

There appears a good agreement which is quality judgments cause satisfaction (Loveman, 1998; Parasuraman, Zeithaml, & Berry, 1994b; Storbacka, Strandvik, and Gronroos, 1994 as cited in Schneider and White, 2004). Furthermore, based on empirical findings and the conceptual development of the service quality concept, service quality is now often believed to be the antecedent of satisfaction (Heskett, Sasser, and Schlesinger, 1997; Reidenbach and Sandifer-Smallwood, 1990; Woodside, Frey, and Daly, 1989 as cited in Schneider and White, 2004).

In addition to that, Yee et al. (2010) found out that service quality has a significant and direct impact on customer satisfaction. Cronin et al. (2000) examine the relationship between service quality and satisfaction and discovered that service quality is an antecedent of customer satisfaction.

According to Sivadas and Baker-Prewitt (2000) in the study of store loyalty confirmed that service quality has a positive influence on satisfaction.

### **(B) Relationship between perceived value and customer satisfaction**

According to Fornell et al. (1996), the top two determinants of customer satisfaction are perceived quality and perceived value. Based on the findings of Cronin et al. (2000), both service quality and service value lead to satisfaction.

Customer satisfaction/dissatisfaction needs experience with the service itself, and is influenced by the perceived quality and the value of the service (Anderson et al., 1994). Based on the study in customer satisfaction with services by McDougall and

Levesque (2000), core service quality (the promise) and perceived value were the most important drivers of customer satisfaction.

In the study by Kuo, Wu and Deng (2009), perceived value has positive influence on customer satisfaction in mobile value-added services.

### **(C) Relationship between corporate image and customer satisfaction**

According to Lai et al. (2009), consumers who develop a positive mental schema of a brand will tend toward high customer satisfaction through a halo effect where all things associated with the brand are similarly valenced. Furthermore, according to Andreassen and Lindestad (1998), corporate image is the primary driver of customer satisfaction for the package tour industry consolidated, and managers should seek to maximize the customers' satisfaction by building a strong corporate image as well as securing high quality services.

Da Silva and Syed Alwi (2006) discovered that the direct and indirect effects for online corporate image or value on customer satisfaction and suggested that the value could play a vital part in creating customer satisfaction and loyalty.

### **(D) Relationship between customer satisfaction and customer loyalty**

Beerli et al. (2004) stated that the increasing importance of relational marketing in recent years, particularly in the service and manufacturing industries, has been accompanied by a bundle of works on customer loyalty. According to Beerli et al. (2004) in the study on a model of customer loyalty in the retail banking market confirmed that satisfaction has a positive influence on customer loyalty.

Past research indicated that customer satisfaction is an important element in building customer loyalty and in turn contributes to firm's profitability (Anderson et al., 1994). Based on Yee et al. (2010) in their study of employee loyalty, service quality and firm performance in the service industry found out that the relationship between customer satisfaction and loyalty is highly significant.

According to Anderson and Sullivan (1993), satisfaction was found to have a positive impact on repurchase intentions. Coyne (1989 as cited in Boohene and Agyapong, 2011) concluded that the relationship between loyalty and customer satisfaction is weak when customer satisfaction is low, moderate when customer satisfaction is intermediate and strong when customer satisfaction is high.

Damodar Suar and Mohapatra (2009) in their study of Indian commercial banks, confirmed that customer satisfaction furthers customer loyalty. Customer satisfaction contributes significantly to customer loyalty (Fornell, Johnson, Anderson, Cha and Bryant, 1996).

Customer satisfaction with a service experience is an important antecedent for customer loyalty (Selnes, 1993). Research finding also shows that customer satisfaction has a significant effect on purchase intentions (Cronin and Taylor, 1992).

Based on the study in the restaurant industry by Han and Ryu (2009), customer satisfaction is a significant predictor of customer loyalty. Donio', Massari and Passiante (2006) in the study of agri-food sector discovered that customer satisfaction positive related to customer loyalty attitude.

Sheng and Liu (2010) found that customer loyalty is positively influenced by customer satisfaction in the study on the effect of e-service quality on online customer satisfaction and loyalty.

### **(E) Relationship between service quality, customer satisfaction and customer loyalty**

Caruana (2000) proposed a mediational model that links the service quality to the service loyalty via customer satisfaction and the research contributes to our knowledge by providing support for the contention that customer satisfaction performs a mediating role in the link between service quality and service loyalty.

Cronin, Brady and Hult (2000) conducted a study to assess the effects of quality, satisfaction, and value on consumers' behavioural intentions and they also examined

the indirect influence of customer's service quality and value via customer satisfaction on behavioural intentions. Based on their findings, both service quality and value were significant predictors for customer satisfaction and there were indirect effect of service value on behavioural intentions through customer satisfaction. Damodar Suar and Mohapatra (2009) stated increase in service quality of the banks can satisfy and retain customers.

#### **(F) Relationship between perceived value, customer satisfaction and customer loyalty**

According to Cronin, Brady and Hult (2000) in their study of assessing the effects of quality, value and customer satisfaction on consumer behavioural intentions in service environments, spectator sports, there were indirect effect of service value on behavioural intentions through customer satisfaction.

In addition, according to Lai et al. (2009), value has both a direct and indirect (through satisfaction) impact on customer loyalty. According to Alireza et al. (2011), perceived value only indirectly influences loyalty through satisfaction.

#### **(G) Relationship between corporate image, customer satisfaction and customer loyalty**

Davies and Chun (2002) found that corporate brand image has an indirect effect on brand loyalty via customer satisfaction when personality traits are used to portray corporate brand image in offline setting.

Based on the study on online corporate image, customer satisfaction and customer loyalty by Da Silva et al. (2006) corporate brand image has an indirect effect on loyalty intention via customer satisfaction. Selnes (1993) stated that often previous studies did not control for brand reputation. It is also suggested that relationship between satisfaction and loyalty may due to brand reputation.

According to Alireza et al. (2011), customer satisfaction is a mediator between corporate image and customer loyalty.