Original Paper

Service Quality & Loyalty: A Review

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Abstract

Relationship marketing theory is based on maintaining and expanding customer relationships in multi-service organizations which leads to customer loyalty. Recently, a wide range of service providers have realized the importance of customer loyalty. One of the key challenges they face is how to manage service quality, which holds a great importance to customer satisfaction and consequently customer loyalty. The SERVQUAL scale is a principal instrument in the services marketing literature for assessing quality. This study seeks to investigate the relationships between service quality, customer loyalty and ultimately SERVQUAL by deeply reviewing the relevant literature.

Keywords

service quality, loyalty, SERVQUAL

1. Introduction

This section will provide the background of the research area. This section contains the general idea of service-quality, role of service-quality and customer-satisfaction and their close relationship with each other. This section also describes importance of customer satisfaction in those companies involved in electrical industry, relationship between customer satisfaction and service quality and measurement of service quality.

2. Service Quality

Service quality is a concept that has aroused considerable interest and debate in the research literature because of the difficulties in both defining it and measuring it with no overall consensus emerging on either (Wisniewski, 2001). There are a number of different "definitions" as to what is meant by service quality. One that is commonly used defines service quality as the extent to which a service meets customers’ needs or expectations (Lewis and Mitchell, 1990; Dotchin and Oakland, 1994a; Asubonteng et al., 1996; Wisniewski and Donnelly, 1996). Service quality can thus be defined as the difference between customer expectations of service and perceived service. If expectations are greater than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs (Parasuraman et al., 1985; Lewis and Mitchell, 1990). Always there exists an important question: why
should service quality be measured? Measurement allows for comparison before and after changes, for the location of quality related problems and for the establishment of clear standards for service delivery. Edvardsen et al. (1994) state that, in their experience, the starting point in developing quality in services is analysis and measurement. The SERVQUAL approach, which is studied in this research, is the most common method for measuring service quality.

Much of the initial work in developing a model to define and assess service quality has been conducted by Parasuraman, Zeithaml, and Berry (1985) (otherwise referred to as PZB). In conceptualizing the basic service quality model PZB (1985) identified ten key determinants of service quality as perceived by the company and: the consumer reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding/knowing the customer and tangibility. They noted that discrepancies existed between the firm's and the customer's perceptions of the service quality delivered. In investigating these discrepancies, PZB (1985) assert that service quality can be assessed by measuring the discrepancies or "gaps" between what the customer expects and what the consumer perceives he receives.

Arguing that the magnitude, and direction of this gap, directly affects the service quality that the consumer perceives, PZB (1985) note that customers would have perceptions of high service quality to the extent that their expectations are lower than the perceived service performance. If the converse were true, customers would perceive low service quality.

1. Report the results of a study that examines the usefulness of the SERVPERF scale for assessing customer perceptions of service quality in the uniform rental industry.
2. Assess the reliability of service quality measures as it applies to the uniform rental industry.
3. Identify the dimensions of service quality that are important to customers of uniform rental companies.
4. Assess the overall service quality and satisfaction level as perceived by customers of rental companies.

PZB (1985) assert that their framework can be used for identifying differences in the quality of goods and services by distinguishing between the properties of a good or service. They note that Nelson (1974) defined "search properties" as properties that can be determined before purchasing (such as credibility and tangibles), and "experience properties" as properties that can be determined only after purchase or consumption. Further, Darby and Karni (1973) defined "credence properties," (such as competence and security) as properties or characteristics that consumers often find extremely difficult to evaluate after their purchase. Therefore, PZB (1985) concluded that consumers typically rely on experience properties when evaluating service quality. Based on their review of the literature, PZB (1985) developed the SERVQUAL scale. The scale was designed to uncover broad areas of good or bad service quality and can be used to show service quality trends over time, especially when used with other service quality techniques. The SERVQUAL scale is based on a difference score between customer expectations of service and their perceptions after receiving the service. Initially PZB (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 (PZB 1988). In their discussion, PZB (1988) assert that the SERVQUAL scale deals with perceived quality and looks specifically at service quality, not customer satisfaction. They state that "perceived service quality is a global judgment or attitude concerning the superiority of service whereas satisfaction is related to a specific transaction" (p. 16). They reported that the scale had a reliability rating of .92 and that the five dimensions could be ranked in order of importance: reliability, assurance, tangibles, responsiveness, and empathy.

Because of "wording related" high expectation scores and higher than normal standard deviations on several questions, the authors later revised the SERVQUAL scale (PZB 1991). Subsequent research and testing of the SERVQUAL scale, however, has not been supportive of its author's claims. For instance, Carman (1990) notes that while SERVQUAL generally showed good stability, its five dimensions were not always generic. Indeed, the various dimensions can vary depending on the type of service industry surveyed. Carman also calls into question PZB's collection of expectation data after a customer actually uses the service. He claims that this should be done before using the service even though this is rarely practical. Carman states that even when this is done, expectations and perceptions showed little relationship to one another.

Teas (1993) questions SERVQUAL'S discriminant validity. He notes that the service quality expectations concept may have serious discriminant validity short-comings which can cause the "perceptions-minus-expectations" service quality measurement framework to be "a potentially misleading indicator of customer perceptions of service quality" (p.33). He notes that SERVQUAL's lack of discriminant validity results in a significant part of the variance in its expectations scores being determined by the respondent's "misinterpretations" of the expectation questions. Churchill, Brown and Peter (1993) argue that because the SERVQUAL scales "scores" are really difference scores (perception scores minus expectation scores); problems of reliability, discriminant validity, and variance restrictions exist. They showed that while SERVQUAL had high reliability, a non-difference score rated higher in reliability. Their findings also showed that the scale "failed to achieve discriminant validity from its components", and the distribution of the SERVQUAL scores were non-normal.

2.1 Definitions of Service Quality

Some important definitions of service quality are coming as following:
Parasuraman et al., (1985, 1988): Service quality is determined by the differences between customer’s expectations of services provider’s performance and their evaluation of the services they received.
Asubonteng et al. (1996): Service quality can be defined as “the difference between customers’ expectations for service performance prior to the service encounter and their perceptions of the service received”.
Gefan (2002): Service quality as the subjective comparison that customers make between the quality of
the service that they want to receive and what they actually get.

2.2 Service Quality Dimensions

Service quality has been the subject of considerable interest by both practitioners and researchers in recent years. Definitions of service quality hold that this is the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Caruana & Malta 2002; 1984; Parasuraman et al., 1985, 1988, 1994). Several studies have been conducted to identify traditional service quality dimensions that contribute most significantly to relevant quality assessments in the traditional service environment (e.g. Parasuraman et al., 1985, 1988; Johnston 1995; Pitt et al., 1999; Berry et al., 1985). Identification of the determinants of service quality is necessary in order to be able to specify measure, control and improve customer perceived service quality (Johnston1995).

Parasuraman et al.’s (1985) identified 10 detailed determinant of service quality through focus group studies:

Tangibles, reliability, responsiveness, communication, access, competence, courtesy, credibility, security, understanding/Knowledge of customer. Later these ten dimensions were further purified and developed five dimensions-tangibles, reliability, responsiveness, assurance and empathy to measure service quality, SERVQUAL (Parasuraman et al.1988). Tangibles refer to physical facilities, equipment, and appearance of personnel. Reliability means ability to perform the promised service dependency and accurately. Responsiveness means willingness to help customers and provide prompt service. Assurance indicates knowledge and courtesy of employees and their ability to inspire trust confidence. Empathy refers to caring, individualized attention the firm provides its customers. (ibid).

Walker (1990) suggested that the key determinants are product reliability, a quality environment and delivery system that work together with good personal service-staff attitude, knowledge and skills. Gronroos (1990) postulated six criteria of perceived good service quality: professionalism and skills; attitudes and behavior; accessibility and flexibility; reliability and trustworthiness; recovery; reputation and credibility and flexibility; reliability and dimensions–Attentiveness/helpfulness, responsiveness, care, Availability, Reliability, Access, Flexibility, Aesthetics, Cleanliness/tidiness, Comfort and Security.

From the focus group interviews, Berry et al. (1985) identified ten determinants of service quality. Virtually all comments consumers made in these interviews about service expectations, Priorities and experiences fall into one of these ten categories. These are – reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding and tangibles.

Reliability involves consistency of performance and dependability. It means that the firm performs the service right the first time. It also means the firm honors its promises. Specially it involves: accuracy in billing, keeping record correctly, performing the service at the designated time. Responsiveness concerns the willingness or readiness of employees to provide service. It involves timeliness of services that means –mailing a transaction slip immediately, calling the customer back quickly and giving
prompt service. Competence means possession of the required skills and knowledge to perform the services. It involves: knowledge and skill of the contact personnel, knowledge and skill of operational support personnel, research capability of the organization. Access involves approach, ability and ease of contact. It means: the service is easily accessible by telephone, waiting time to receive service is not extensive, hours of operation are convenient and location of service facility is convenient. Courtesy involves politeness, respect, consideration, and friendliness of contact personnel. It includes consideration for the consumer’s property, clean and neat appearance of public contact personnel. (ibid)

Communication means keeping customers informed in language they can understand. It also means listening to customers. It may mean that the company has to adjust its language for different consumers-increasing the level of sophistication with a well-educated customers and speaking simply and plainly with a novice. It involves: explaining the service itself, explaining how much the service will cost, assuring the customer that a problem will be handled. Credibility involves trustworthiness, believability, honesty; it involves having the customer’s best interests at heart. Contributing to credibility is: company reputation, personal characteristics of the contact personnel. The degree of hard sell involved in interaction with the customer. Security is the freedom from danger, risk or doubt. It involves: physical safety, financial security and confidentiality. Understanding the customer means making the effort to understand the customer’s need. It includes: learning the customer’s specific requirements, providing individualized attention, recognizing the regular custom. Tangibles includes the physical evidence of the service, physical representations of the service, such as a plastic credit card or bank statement, other customers in the service facilities. (ibid)

Vriens (2000) developed an application for measuring retail banking service quality, which consists of 28 attributes including four service quality dimensions such as: accessibility; competence; accuracy and friendliness; and tangibles. The accuracy and friendliness dimension turned out to be the most important factor out of four determining banking preference, followed by competence, tangibles, and accessibility. Nantel (2000) proposed an alternative measure of perceived service quality in retail banking that comprises 31 items with six underlying key dimensions. These dimensions are: effectiveness and assurance, access, price, tangibles, service portfolio and reliability.
<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Authors</th>
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<tbody>
<tr>
<td>Reliability</td>
<td>Prasuraman et al., (1985); Zeithmal et al., (1988); Yang &amp; Fang (2004); Liu &amp; Arnett (2000); Riel et al.(2001)</td>
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<tr>
<td>Responsiveness</td>
<td>Parasuraman et al.,(1985); Zeithmal et al.,(1988);</td>
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<tr>
<td>Competence</td>
<td>Parasuraman et al.,(1985); Parasuraman et al., (1985);</td>
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<td>Accessibility</td>
<td>Kaynama and Black (2000); Joseph et al.(1999)</td>
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<td>Courtesy</td>
<td>Parasuraman et al.,(1985);</td>
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<tr>
<td>Communication</td>
<td>Parasuraman et al.,(1985);</td>
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<td>Credibility</td>
<td>Parasuraman et al.,(1985);</td>
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<td>Security</td>
<td>Parasuraman et al.,(1985);</td>
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<td>Understanding the customer</td>
<td>Parasuraman et al.,(1985);</td>
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<td>Tangibles</td>
<td>Parasuraman et al.,(1985); Zeithmal et al .,(1985)</td>
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<tr>
<td>Content</td>
<td>Doll et al.(1994);Kaynama And Black(2000)</td>
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<tr>
<td>Accuracy</td>
<td>Doll et al.(1994);Joseph et al.(1999)</td>
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<tr>
<td>Timeliness</td>
<td>Doll et al.(1994)</td>
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<td>Empathy</td>
<td>Zeithmal et al.,(1988)</td>
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<tr>
<td>Assurance</td>
<td>Delone and Mclean (2003); Liu &amp; Arnett(2000);Riel et Zeithmal et al.,(1988);</td>
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3. Servqual

Just over a decade ago, Parasuraman et al. (1985) initiated a research stream that many consider to be the most comprehensive investigation into service quality. Briefly, Parasuraman et al. (1985) proposed service quality to be a function of pre-purchase customer expectations, perceived process quality, and perceived output quality. They defined service quality as the gap between customers’ expectations of service and their perceptions of the service experience, ultimately deriving the now-standard SERVQUAL multiple-item survey instrument (Parasuraman et al., 1988).

The SERVQUAL scale is a principal instrument in the services marketing literature for assessing quality (Parasuraman et al., 1991; Parasuraman et al., 1988). This instrument has been widely utilized by both managers (Parasuraman et al., 1991) and academics (Babakus and Boller, 1992; Carman, 1990; Crompton and MacKay, 1989; Cronin and Taylor, 1992; Johnson et al., 1988; Webster, 1989; Woodside et al., 1989) to assess customer perceptions of service quality for a variety of services (e.g. banks, credit card companies, repair and maintenance companies, and long-distance telephone companies). Based on Parasuraman et al.’s (1988) conceptualization of service quality (noted above), the original SERVQUAL instrument included two 22-item sections that intended to measure (a) customer expectations for various aspects of service quality, and (b) customer perceptions of the service they actually received from the focal service organization (Parasuraman et al., 1988). In short, the SERVQUAL instrument is based on the gap theory (Parasuraman et al., 1985) and suggests that a consumer’s perception of service quality is a function of the difference between his/her expectations about the performance of a general class of service providers and his/her assessment of the actual performance of a specific firm within that class (Cronin and Taylor, 1992).

Five dimensions; the results of the initial published application of the SERVQUAL instrument indicated that five dimensions of service quality emerged across a variety of services (Parasuraman et al., 1988). These dimensions include tangibles, reliability, responsiveness, assurance, and empathy (Brensinger and Lambert, 1990; Carman, 1990; Crompton and MacKay, 1989; Parasuraman et al., 1985, 1988; Woodside et al., 1989; Parasuraman et al., 1991). Tangibles are the physical evidence of the service (e.g. physical facilities, appearance of personnel, or tools or equipment used to provide the service), reliability involves consistency of performance and dependability (i.e. a firm performs the service right the first time and honors its promises), responsiveness concerns the willingness or readiness of employees to provide service (e.g. timeliness of service), assurance corresponds to the knowledge and courtesy of employees and their ability to inspire trust and confidence, and, finally, empathy pertains to caring, individualized attention that a firm provides its customers.

Subsequent research conducted in a variety of settings (e.g. a dental school clinic, a business school placement center, a tire store, and an acute care hospital) suggests that the five SERVQUAL dimensions may not be universal across all services, and that it is probably unnecessary to administer the expectation items every time SERVQUAL is administered (Babakus and Boller, 1992; Carman, 1990; Parasuraman et al., 1991). Cronin and Taylor (1992), for instance, concluded that a psychometrically superior
assessment of service quality can be obtained through the SERVQUAL performance items alone, rather than the expectations–performance methodology originally used by Parasuraman et al. (1988). More robust. Most recently, researchers have begun incorporating other constructs and measures along with the SERVQUAL dimensions in order to extend and improve the explanatory power of this model. For instance, Zeithaml et al. (1994) suggest that the financial effects of SERVQUAL are more robust if one considers the immediate behavioral consequences of service quality (i.e. behavioral intentions) as intervening between service quality and financial gains or losses.

3.1 Five Critical Aspects of Service Quality
In an effort to conceptualize service quality (by taking into account all the aspects of customer perceived service quality, including those already addressed in the existing instruments and those that are left out in the empirical service quality literature), Sureshchandar et al. (2001) identified five factors of service quality as critical from the customers’ point of view. These factors are:
1. Core service or service product;
2. Human element of service delivery;
3. Systematization of service delivery: non-human element;
4. Tangibles of service – servicescapes;
5. Social responsibility.

4. Customer Satisfaction
Early concepts of satisfaction research have typically defined satisfaction as a post choice evaluative judgment concerning a specific purchase decision (Churchill and Sauprenant 1992; Oliver 1980). Most researchers agree that satisfaction is an attitude or evaluation that is formed by the customer comparing their pre-purchase expectations of what they would receive from the product to their subjective perceptions of the performance they actually did receive (Oliver, 1980).

4.1. Definition of Customer Satisfaction
Several authors have defined satisfaction in a different way. Following table will present some definition of customer satisfaction that will give us a clear idea about satisfaction concept.

<table>
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<th>Table 2. Some Definition of Customer Satisfaction</th>
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<tr>
<td><strong>Definition</strong></td>
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<tr>
<td>“Satisfaction is a person’s feelings of pleasure or disappointment resulting from comparing a product’s perceived performance (or outcome) in relation to his or her expectation”.</td>
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<tr>
<td>Customer satisfaction is a collective outcome of perception, evaluation and psychological reactions to the consumption experience with a product/service.</td>
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<td>Satisfaction is a function of consumer’s belief that he or she was treated fairly.</td>
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</table>
4.2 Determinants of Customer Satisfaction

Although there is a general conformity on the distinctiveness of service quality and customer satisfaction from a conceptual point of view, the operationalisation of customer satisfaction is somewhat hazy. For instance, Cronin and Taylor (1992) defined and measured customer satisfaction as a one-item scale that asks for the customers’ overall feeling towards an organization. By using a single item scale to measure customer satisfaction, Cronin and Taylor’s approach fails to do justice to the richness of the construct, as it has failed to acknowledge that, like service quality, customer satisfaction is also likely to be multidimensional in nature. Bitner and Hubert (1994) used four items to measure the customers’ overall satisfaction with the service provider. The authors introduced the concept of encounter satisfaction, and devised a nine-item scale to measure the same (i.e. the customers’ satisfaction with a discrete service encounter).

5. Customer Loyalty

Hallowell (1996) defines customer loyalty as the relationship a customer maintains with the seller after the first transaction. Gremler and Brown (1996) categorise three aspects to customer loyalty: cognitive, affective and behavioral. Cognitive is the customer’s expressed future buying intention; affective is the customer’s feeling of attachment to or affection for a company’s people, products or services; and behavioral refers to the actual purchase pattern of the customer. Cognitive psychology is probably more appropriate for complex services as it assesses the importance of cognitive schemas in the decision-making process and consumer behavior prior to action, e.g. the impact of corporate image (the attitude to a company) and its effect on customer loyalty. Although Andreassen and Lindestad (1998) have proposed that the general feeling of satisfaction felt by a customer is the result of purchase encounters, it need not be based on previous transactional experience. Intermediaries who may not have personally sampled the product or service could also display loyalty in their recommendations to third parties. In the steel industry, loyalty may be any one or a combination of these influences: confirmation-based satisfaction with previous purchases; cognitive decision to buy based on a company’s reputation or image; and recommendation by a third party with or without previous transaction experience.

The stages for developing a long-term customer relationship suggested by Grönroos (1990) in his loyalty model are establishing, maintaining and enhancing the link. Keeping or retaining the customer is the most important step in this model. This is based on satisfaction arising from an initial contact or through purchase experience, especially the last encounter between the customer and the service provider. It is worth noting, however, that Storbacka et al. (1994) argue that customer satisfaction is only one dimension in building relationship strength and that environmental factors such as market concentration can also affect the longevity of the relationship. The handling of service encounters, especially the “critical episodes”, can influence the supplier-customer relationship positively or negatively. The economic argument for preventing customer defection is reflected by Reichheld and
Sasser’s (1990) observations when researching a credit card company. They found that a decrease in defections by just 5 per cent would boost profits by 25 per cent to 85 per cent. They concluded that customer defections have a significant impact on a company’s profitability – more so than “scale, market share, unit costs and many other factors usually associated with competitive advantage”.

6. Discussion
Long-term customers are more likely to buy additional services and to pass on favorable recommendations. Existing customers tend to be less price-sensitive and have lower maintenance costs than what might be involved in finding new customers. Reichheld and Sasser (1990) went on to suggest that customer retention should be a key performance indicator for senior management and a fundamental component of any bonus or incentive scheme. Stone’s (1998) proposal that the net economic contribution of customer longevity is dependent on the concept of the “good” and “bad” customer supports findings in retail banking. They reported that customer satisfaction was greater among the most unprofitable (high volume) customers. The aim therefore for a business is to identify and segregate the good from the bad customers so as and to direct the company’s improved or modified service qualities at the good customers to retain their loyalty. Bachelor (1998) in arguing that customer loyalty is not appropriate for commodity products where selling price seems to play a major role in the purchase decision, asks the question “Is there such thing, any more, as customer loyalty?” Nonetheless, the service management literature shows increasing interest in relationship strategies where the focus is evidently on building customer satisfaction and loyalty.

Recent environmental factors such as demographic shifts in Western industrialized countries, the rapid growth of competition through increased customer choice (Kotler et al., 1999), the breakneck pace of innovation and companies realizing that repeat business is akin to compounding interest, have witnessed a strategic move away from “offensive marketing” aimed mostly at getting new customers to “defensive marketing” focused on customer retention. This prominence placed on keeping existing customers rather than acquiring new ones will have an impact along the value chain system and companies will have to review their competencies in order to meet this objective. In the UK steel industry where the customer base is relatively small, customer retention is a pertinent strategy.

7. Conclusion
If customer loyalty is an important determinant of future financial health, then the challenge for managers is in knowing how to achieve it. Discrepancy on the extent to which satisfaction with service quality leads to customer longevity has been the subject of many studies but an outright conclusion has still to be drawn (Cronin and Taylor, 1992; Boulding et al., 1993; Spreng et al., 1996; Holmlund and Kock, 1996). Although Rust and Zahorik’s (1993) research into retail banking indicated a relationship between customer satisfaction and retention, other studies have shown that despite apparent satisfaction, customer defection can still take place and, in some industries, be as high as 50 per cent (Mittal and
Lassar, 1998). Taylor and Baker (1994) argue that service quality and customer satisfaction are separate constructs. Whilst satisfaction indicates the state of a customer’s psyche, quality refers to the state of a business’ resources and efforts. Whiteley (1991) differentiates product and service quality by defining the former as “What you get” and the latter as “How you get it”. This is in agreement with Grönroos’ (1990) two-dimensional aspects of service quality:

1. Technical quality – the quality of what is delivered.
2. Functional quality – the quality of how the service is delivered.

Whilst customer satisfaction could be viewed as the outcome of the difference between customer’s perception and expectation of service quality, it should not be forgotten that factors such as price, packaging and situational factors such as the service encounter, would also influence satisfaction. Hence, Zeithaml and Bitner (1996) define service quality as the way in which the whole service experience is performed. Their model of customer perceptions of quality and customer satisfaction hypothesises that satisfaction is more of an attitude and this attitude would influence perceptions of service quality, which in turn would influence purchase intentions: (see equation 1) Failure to provide reliable service may result in customer dissatisfaction and possible defection. This is based on the premise that a satisfied customer will continue to maintain a relationship (Hallowell, 1996) and that relationship will lead to loyalty and longevity. Zeithaml et al. (1990) arrived at the same idea by looking at the probable behavior of the dissatisfied customer.

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