CHAPTER I
INTRODUCTION

Background for the Study

Within the last two decades, service quality has become a main concern in the business world especially in services sector. The key to success in winning the global battle now and in future is to have high standards of service. Hence, it is helpful for service organizations to know the customer service quality perceptions in order to overcome the competitors and attract and retain the customers. Because of the globalization and liberalization of Indian economy, Indian service sector has been opened for Multinational companies. In order to overcome the competition and to retain the world class service standards, Indian companies have been forced to adopt quality management programs.

Services are defined as: the activities, which are involved in producing intangible products as education, entertainment, food and lodging, transportation, insurance, trade, government, financial, real estate, medical, consultancy, repair and maintenance like occupation.

Quality has become a strategic tool in obtaining efficiency in operations and improved performance in business. This is true for both the goods and services sectors. Quality has been defined differently by various authors. Some prominent definitions include ‘conformance to requirements’ (Crosby, 1990), ‘fitness for use’ or ‘one that satisfies the customer’. According to
production philosophy of Japan, quality has been defined as ‘zero defects’ in
the firm’s offerings. Quality has become a strategic tool for obtaining
efficiency in operations and improved business performance (Babakus and
Boller, 1992; Garvin, 1983; Phillips, Chang and Buzzell, 1983).
This is true for the services sector too. Several authors have discussed the
unique importance of quality to service firms and have demonstrated its
positive relationship with profits, increased market share, return on
investment, customer satisfaction, and future purchase intentions (Rust and
Oliver, 1994). One obvious conclusion of these studies is that firms with
superior quality products outperform those marketing inferior quality
products.

In services marketing literature, service quality has been concisely defined as
the overall assessment of a service by the customers. Service quality is
playing an increasingly important role in the present environment where there
is no further scope for the companies to differentiate themselves other than
the quality of the service provided by them. Delivering superior service
quality than the competitors is the key for the success of any organization.
But, the companies face difficulties in measuring the quality of services
offered to the customers.

Because unlike measuring the quality of goods, the measurement of the
quality of services offered by the companies is difficult due to the three
unique features of services viz. intangibility, heterogeneity, and
inseparability. Hence the only way of measuring the quality of services
offered by the service provider is the measurement of the customers’ perceptions of the quality of service they are experiencing from their service providers.

Though initial efforts in defining and measuring service quality emanated largely from the goods sector, a solid foundation for research work in the area was laid down in the mid-eighties by Parasuraman, Zeithaml and Berry, (1985). They were amongst the earliest researchers to emphatically point out that the concept of quality prevalent in the goods sector is not extendable to the services sector. Being inherently and essentially intangible, heterogeneous, perishable and entailing simultaneity and inseparability of production and consumption, services require a distinct framework for quality explication and measurement.

As against the goods sector where tangible cues exist to enable consumers to evaluate product quality, quality in the service context is explicated in terms of parameters that largely come under the domain of ‘experience’ and ‘credence’ properties and are as such difficult to measure and evaluate (Parasuraman, Zeithaml and Berry, 1985). One major contribution of Parasuraman, Zeithaml and Berry (1988) was to provide a concise definition of service quality. According to these authors, service quality means relating the superiority of the service with the global judgement of a person about it and explicated it as involving evaluations of the outcome (i.e., what the customer actually receives from service) and process of service act (i.e., the manner in which service is delivered).
In line with the propositions put forward by Gronroos (1984) and Parasuraman, Zeithaml and Berry (1985, 1988) posited and operationalized service quality as a difference between consumer expectations of ‘what they want’ and their perceptions of ‘what they get.’ Based on this conceptualization and operationalization, they proposed a service quality measurement scale called ‘SERVQUAL’. Nerurkar (2000) analyzed the SERVQUAL (a service quality measurement scale developed by Parasuraman, Zeithaml, and Berry, 1985) dimensions in India and concluded that service quality should form the basis for all customer retention strategies.

With a large population, low telephone penetration levels, a considerable rise in consumers’ income, and spending owing to strong economic growth, India has emerged as an attractive business market in the world. In case of India, the mobile telecommunication industry turned highly competitive since the government deregulated this sector. This decision of regulation opened the doors for private and foreign players to operate in the Indian market. The growth of operators in the Indian market has accelerated rapidly from one operator in public sector to fifteen operators in all over India. Consequently, the competition among these telecommunication players in India in obtaining and maintaining customers remains critical in spite of the fact that the customers have been very selective now in determining their choices based on the costs paid to receive the services and benefits obtained. In order to attract new customers and to retain the existing customers, mobile telecommunication service providers in Indian market are employing a
variety of ways such as providing customers with excellent services, modern looking equipments, courteous, skilful, well trained personnel, and supportive operative systems. Service providers expect that with excellent service, customers will be satisfied and if satisfied, they will become loyal customers for the organization.

The significant growth of service providers in the field of mobile telecommunication sector has caused the appearance of buyer’s market. Buyer’s market is that type of market, where supply exceeds demand. In this situation of buyer’s market, the customers get more bargaining power. Therefore in this situation, the service providers have to be very effective and efficient in their operations because customers now have choices in determining the service provider they want. In the context of customers, the need for excellent services always keeps on changing. With the passage of time, the level of service quality also varies.

There is no guarantee that what is excellent service quality today is also applicable for tomorrow or day after tomorrow. Besides this, in the last two decades the use of technology in the delivery of services has also changed significantly. The use of latest world class innovative technology in terms of various value added services has also increased the war among service providers. To win the battle of global competition in the service industries and to be able to exist, these service providers will need to bring into play new contemporary strategies in providing service that will satisfy the continuous demanding customers. Because of this reason services marketing
and telecommunication marketing gaining prominence in marketing literature (Kotler, 2001).

The interest in services marketing research on service quality and customer satisfaction has grown tremendously. A good number of researches have been conducted by applying related theories and methods in the service industry. SERVQUAL and SERVPERF (an unweighted performance only measure of service quality developed by Cronin and Taylor, 1992) frameworks have been tested by various researchers in different service setups to get reliability and validity, and also to suggest the superiority of one scale over other. Many researchers from all over the world tried to develop different scales to measure service quality and customer satisfaction in different service environments.

Still there are continuing demands for refining the existing theories that are suitable for multifaceted service setup. One way for refining the theories is to consider variables within the existing model which are potentially powerful in making prediction about the dependent variable. As a stepping stone to this notion of refining the theories, Cronin, Brady, and Hult (2000) conducted an empirical study to assess the effects of service quality, value, and customer satisfaction on behavioural intentions in the context of different service industries. They suggested in their findings that there is need to include additional decision-making variables like tangibility aspect of service quality, customers’ expectations and quality of service.
environment. Also, suggested replication of similar study in another service setting.

Caruana (2002) attempted to examine the model in which service quality is linked to service loyalty via customer satisfaction. After examining this model, he suggested the need to consider the role of customer value and reputation of the company in predicting loyalty. The present study will try to address the doubts raised by the researchers like Cronin, Brady, and Hult (2000), Caruana (2002) etc.

The telecommunications sector in India was liberalized in the early 1990s. Attack of private as well as foreign direct investment in the sector started afterwards. With taut margins and ephemeral customer loyalty, the mobile phone service providers are now operating in a highly competitive environment. Profitability of the service providers is being curbed by factors like; revenue leakage, customer churn, and ineffective customer service. The Indian mobile telecommunication services operators are facing a number of significant challenges, because of changing dynamics:

- First, retaining existing customers mainly in a pre-paid and high churn market has become more difficult and costly.
- Second, new customer acquisition is becoming more elusive than ever as potential customers have more options to choose from and mobile phone operators offer attractive deals to lure prospect customers.
- Third, as mobile phone operators have had to incur additional cost in keeping existing customers and acquiring new ones, their Average
Revenue Per User (ARPU) has declined, leading to worsening of their financial performance.

Source: [http://www.trai.gov.in/trai/upload/PressRel](http://www.trai.gov.in/trai/upload/PressRel)

In light of above mentioned challenges, mobile telecommunication services providers need to make customer satisfaction a strategic priority. Past researches in service literature provide evidence that customer satisfaction has a direct effect on the financial performance of a company (Smith and Wright, 2004; Ittner and Larcker, 1998).

Moreover, satisfied customers have a higher propensity to stay with their existing service provider than the less satisfied ones (Cronin et al., 2000) and are more likely to recommend the service provider to others, leading to improved bottom line for the company (Reichheld 2003, 2006). Thus, it is very important that Indian mobile telecommunication services operators gain a better understanding of the relationship between the performance of service quality attributes, customer value, satisfaction, and loyalty.

**Indian Mobile Telecommunication Market: A Glance**

The mobile telecommunication services sector all over the world has been witnessing lofty growth rates in subscriber base in past ten years. In developing countries, this type of service is capturing an increasing share of the overall telecommunications market. India is one of the fastest growing mobile telecommunications markets among developing countries of the world. In the last five years, Indian telecommunication service market has
grown from 13 million subscribers in 2003 to about 893.84 million subscribers in December, 2011, registering an unexpected annual growth rate (Telecom Regulatory Authority of India, January, 2012).

Significant reduction in call tariff rates can be considered responsible for such a huge growth rate. Since 1999, the call tariff rate has declined exponentially, from Rs.6.70 per minute in 1999 to one paisa per second in 2010. As a result, the Indian subscriber base has increased enormously. 17.1 million new subscribers has been added in the month of September, 2010, and total figure crossed the mark of 687.71 million in September, 2010 (Telecom Regulatory Authority of India) making India is one of the fastest growing telecommunication markets in the world.

The contribution of the telecommunication sector to India's GDP has also been increased significantly. This was possible because of huge inflow of foreign direct investment in the mobile telecommunication sector. The revenue growth in the sector is expected to touch 26% by the year 2012, as the total industry size is expected to touch Rs. 3,44,921 crore. Owing to the huge competition among the players, price wars are quite evident. 10 years ago, subscribers were made to pay for an incoming call; today they have the liberty to pay for per second of their usage, with TATA DOCOMO bringing the market disruption by their concept of per second billing. The reduction in tariff has culminated in a downward trend in Average Revenue Per User (ARPU), a metric which is used by Telecom companies for their current and future revenue projections. The ARPU in GSM (Global System for Mobile
Communications) services has declined from US$ 6.64 for the quarter ending March ‘08 to US$ 4.10 for the quarter ending March ‘09. The ARPU for the GSM service in India is much higher than that of CDMA (Code Division Multiple Access) and to worsen the situation, the percentage reduction in ARPU of CDMA is way above that of GSM services. On one side there is a decline in ARPUs, and on the other hand, the average Minutes of Usage (MoU) has shown a slight decline in both GSM as well as CDMA, where CDMA is showing a more dip as compared to GSM.

According to the Cellular Operators Association of India (COAI), the Indian Cellular market is broadly divided into four circles (zones) as follows:

**Table 1**

**Division of Indian Cellular Market in circles**

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Name of Circle</th>
<th>Names of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>Maharashtra, Gujarat, Andhra Pradesh, Tamil Nadu, Karnatka</td>
</tr>
<tr>
<td>2</td>
<td>B</td>
<td>Andaman and Nicobar, Haryana, Kerala, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh (E), Uttar Pradesh (W), West Bengal</td>
</tr>
<tr>
<td>3</td>
<td>C</td>
<td>Assam, Bihar, Himachal Pradesh, Jammu and Kashmir, Orissa, North Eastern States</td>
</tr>
<tr>
<td>4</td>
<td>Four Metros</td>
<td>Delhi, Mumbai, Chennai, Kolkata</td>
</tr>
</tbody>
</table>
Table 2

Mobile Telecommunication Services Providers in India as of 30 Sep 2011

<table>
<thead>
<tr>
<th>Name of Operator</th>
<th>Subscriber Base (in Million)</th>
<th>Market Share</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bharti Airtel</td>
<td>172.78</td>
<td>19.78%</td>
<td>1</td>
</tr>
<tr>
<td>Reliance Communications</td>
<td>147.09</td>
<td>16.84%</td>
<td>2</td>
</tr>
<tr>
<td>Vodafone</td>
<td>144.99</td>
<td>16.60%</td>
<td>3</td>
</tr>
<tr>
<td>Idea</td>
<td>100.18</td>
<td>11.47%</td>
<td>4</td>
</tr>
<tr>
<td>BSNL</td>
<td>95.79</td>
<td>10.97%</td>
<td>5</td>
</tr>
<tr>
<td>Tata Teleservices</td>
<td>88.77</td>
<td>10.16%</td>
<td>6</td>
</tr>
<tr>
<td>Aircel</td>
<td>59.79</td>
<td>6.84%</td>
<td>7</td>
</tr>
<tr>
<td>Unitech</td>
<td>29.65</td>
<td>3.39%</td>
<td>8</td>
</tr>
<tr>
<td>Sistema</td>
<td>13.27</td>
<td>1.52%</td>
<td>9</td>
</tr>
<tr>
<td>Videocon</td>
<td>6.27</td>
<td>0.72%</td>
<td>10</td>
</tr>
<tr>
<td>MTNL</td>
<td>5.58</td>
<td>0.64%</td>
<td>11</td>
</tr>
<tr>
<td>Stel</td>
<td>3.50</td>
<td>0.40%</td>
<td>12</td>
</tr>
<tr>
<td>Loop</td>
<td>3.20</td>
<td>0.37%</td>
<td>13</td>
</tr>
<tr>
<td>Etisalat</td>
<td>1.52</td>
<td>0.17%</td>
<td>14</td>
</tr>
<tr>
<td>HFCL Infotel</td>
<td>1.22</td>
<td>0.14%</td>
<td>15</td>
</tr>
<tr>
<td>All India</td>
<td>873.61</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Source:
### Table 3

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Name of Operator</th>
<th>Market Share</th>
<th>September, 2010¹</th>
<th>September, 2011²</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bharti Airtel</td>
<td>21.34%</td>
<td>19.78%</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Reliance Communications</td>
<td>17.37%</td>
<td>16.84%</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Vodafone</td>
<td>17.08%</td>
<td>16.60%</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Tata Teleservices</td>
<td>11.47%</td>
<td>10.16%</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>BSNL</td>
<td>11.31%</td>
<td>10.97%</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Idea</td>
<td>10.84%</td>
<td>11.47%</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Aircel</td>
<td>6.64%</td>
<td>6.84%</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Uninor</td>
<td>1.05%</td>
<td>3.39%</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Sistema</td>
<td>0.86%</td>
<td>1.52%</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>MTNL</td>
<td>0.81%</td>
<td>0.64%</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Loop</td>
<td>0.45%</td>
<td>0.37%</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Videocon</td>
<td>0.43%</td>
<td>0.72%</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Stel</td>
<td>0.22%</td>
<td>0.40%</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>HFCL Infotel</td>
<td>0.13%</td>
<td>0.14%</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Etisalat</td>
<td>0.005%</td>
<td>0.17%</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>All India</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>

¹Source: [http://www.trai.gov.in/WriteReadData/trai/upload/PressRele](http://www.trai.gov.in/WriteReadData/trai/upload/PressRele)

Figure 1

Source: Author’s compilation
Objectives of the Study

Although research on the service quality of telecommunication services based on customer perceptions has been conducted widely, no recent studies have been conducted which examine the effect of the service quality dimensions on customer value, satisfaction, and loyalty in an integrated model in Indian context. The current study attempts to examine the effect of service quality dimensions on customer value, satisfaction, and loyalty based on the research objectives which are presented as follows:

Broad Objective

Broad objective of the study is to examine the effect of service quality dimensions on customer value, customer satisfaction, and customer loyalty.

Specific Objectives

- To identify the service quality dimensions in the mobile telecommunications services sector.

- To analyse the specific dimensions of service quality that influence customer value, vis-à-vis, customer satisfaction.

- To analyse the specific predictors (service quality attributes, customer value, customer satisfaction) which influence customer loyalty.
• To analyse whether the attributes can correlate relationships among service quality attributes, customer value, customer satisfaction, and customer loyalty.

• To examine whether customer value plays mediating role in the relationships between service quality attributes and customer satisfaction.

• To examine whether customer satisfaction plays mediating role in the relationships between customer value and customer loyalty.

• To examine whether customer value / customer satisfaction play mediating role in the relationships between service quality attributes and customer loyalty.
**Theoretical Framework**


In the year 1985, pioneer research was conducted in the field of service quality by Parasuraman, Zeithaml, and Berry. In their research they came out with service quality dimensions, and succeed in developing five gaps of service quality model. Researchers defined service quality as gap between customers’ expectations and perceptions about quality of service offered by the service provider. With the help of this research, they were able to develop service quality scale to measure the quality of service quantitatively, and scale was named as SERVQUAL. In 1988, Pararsuraman et al. conceptualized the dimensions of SERVQUAL scale namely; Tangibility, Responsiveness, reliability, Assurance, and Empathy. For these five dimensions a total of 22 items were selected in the service quality instrument. After development of service quality instrument, many researches were conducted in different service set ups by using SERVQUAL.

To examine the process of delivery of service quality, customer value and their impact on behavioural intentions of customers, Hartline and Jones
(1996) developed a model, which included same theories and concepts as earlier taken by Bolton and Drew (1991a); Boulding et al., (1993). In their research works, they came out with strong evidences that specific performance cues of employees have significant effect on overall quality and as a result, this quality had significant impact on overall customer value. Effect of overall customer value was found relatively more on behavioural intentions in compared to overall quality. Whereas, the effect of specific performance cues was mediated by overall customer value and overall quality.

In the year 2000, Cronin, Brady, and Hult conducted research in various service industries by taking into consideration service quality, customer value, customer satisfaction, and behavioural intentions. They found in their study that service quality, customer value, and customer satisfaction have direct impact on behavioural intentions, if all these three are taken collectively, whereas indirect effects of service quality and customer value increased their impact on behavioural intentions.

Caruana (2002) developed a model showing mediation role of customer satisfaction between service quality and customer loyalty. Results of the research provided evidences for the proposed model and confirmed the mediating role of customer satisfaction between service quality and customer loyalty.
Many past studies have specified linkages among service quality, customer value, customer satisfaction, and behavioural intentions. However the results do not confirm which of these three variables or their combinations have direct impact on behaviour intention. In the past literature it has been found that bivariate relationship is between behavioural intention and all three constructs. Zeithaml et al., (1996) found that service quality is an important determinant of behavioural intention, but the exact relationship was not discovered. Therefore this type of partial relationship determination may lead to omitted variable bias and hamper the results.

To overcome this biasness, an integrative model is needed so that true relationship may be developed and can be tested in a model. Caruana (2002) suggested the role of customer value and reputation of an organization can be considered as new constructs to relate customer satisfaction with customer loyalty. The present research expands the previous researches conducted by various scholars and includes the model developed by Heskett, Sasser, and Schlesinger (1997), popularly known as Service Profit Chain. Service Profit Chain model suggests that there is positive direct relationships among profit, growth, value of products offered to the customers, customer satisfaction, customer loyalty, productivity, service quality attributes.

With the use of customer friendly strategies, satisfied employees deliver better quality of services and able to retain the customers for a long time for the betterment of organization. Service quality attributes and customer value directly influence customer satisfaction and customer satisfaction directly
affects customer loyalty. Consequently loyalty of customers towards organization leads to phenomenal growth and finally adds to the profits of the organization.

Therefore proposed research framework for the present study is shown in figure below:

**Research Framework**

**Figure 2**

**Conceptual Research Framework of service quality attributes, customer value, customer satisfaction, and customer loyalty**

Research framework for the present study is adopted from Heskett et al., (1997), Cronin, Brady, and Hult (2000), and Caruana (2002) based on the constructs namely service quality attributes; customer value; customer satisfaction; and customer loyalty. It will include hypothesized relationships among above mentioned constructs, and statistically this model will be tested.
Justification of the Study

This research is designed to help both academicians and practitioners understand the extent to which service quality, customer value, and customer satisfaction relate to customer loyalty in a telecom environment. The assessment of the most important attributes in telecom services setup can provide important cues, which may be used to review characteristics of the sector as experienced by customers.

These cues can be used to improve customer value and customer satisfaction, which will lead to improved customer loyalty. Finally, this study contributes to the service marketing literature by applying concepts of service quality, customer value, customer satisfaction, and loyalty in a telecommunication services setting in India, as one of the developing countries in Asia.
Definition of the terms included in the title of the study

**Service quality:** Service quality means the consumer’s perception of the way the service has been performed (Cronin and Taylor, 1992).

**Service quality attributes:** It means the attributes of the service offered perceived by consumer.

**Mobile telecommunication services:** These are the services offered for the public by the service providers. These services consist of both types of services namely; Code division Multiple Access (CDMA), and Global System for Mobile Communications (GSM).

**Customer value:** Customer value means that overall assessment of customer about the utility of service based upon what is received and what if given in exchange to service provider (Cronin, Brady and Hult, 2000).

**Customer satisfaction:** Customer satisfaction means an emotional response, that result from a cognitive process of evaluating the service received against the costs of obtaining service (Woodruff et al., 1991; Rust and Oliver 1994).

**Customer loyalty:** Customer loyalty means that the customer may come under environmental effect or marketing technique, which induce their possibly latent transformation behaviour, but they wouldn’t change their repeat purchase intention with preference commodity or service Oliver, Rust and Varki (1997). The concept of customer loyalty can be understood as a combination of favourable attitude of customers and their repurchase behaviour (Kim et al., 2004).
Scope of the Study

The scope of the problem to be explored is restricted to the impact of service quality attributes on customer value, satisfaction, and loyalty. The object of the current research is the mobile telecommunication services in Dehradun, a capital city of Uttrakhand, India, in which the mobile telecommunication service customers will serve as unit analysis.

The choice of customers as respondents to meet the objectives of the present research work needs to fulfil the following criteria:

1. Must not be employee of the mobile telecommunication services provider.
2. Must not be retailer of mobile telecommunication services provider.
3. Must be the customer of the mobile telecommunication services provider for at least six months.
4. Must be an active customer.
Program of Study

Chapter I of the study presents an introduction that includes background of the study, purpose of the study, theoretical framework, statement of the problem, rationale, scope. In addition, definition of the terms relevant to the study is also included in the chapter.

Chapter II provides comprehensive review of literature of the relevant concepts and theories used to support this study, and research gaps.

Chapter III provides research questions and null hypotheses of the study. Furthermore, it presents research design overview, conceptual framework, sampling technique, operationalization of variables, measurement, reliability and validity issues of the study, data collection procedures, data analyses methods used.

Chapter IV describes the results and empirical findings of this research.

Chapter V provides discussion of the findings, conclusions, managerial implications, limitations of the current study, and offers recommendations for the future research
SUMMARY

This chapter includes the background of the study, objectives of the study, theoretical framework, and justification for conducting this study. In addition, it provides definitions of the terms used in title of the study, scope of the study, and program of the study.

The next chapter will review the existing literature relevant to the study, giving direction to nature of research design and channels that most suitable the research problems.