PERSPECTIVES ON RETAIL SERVICE QUALITY: FINDINGS FROM THE BALTIC STATES

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ABSTRACT

Service quality research continues to represent one of the major tenets of Services Marketing, but there continues to be limited research in the field outside of developed, Western markets. In order to advance the knowledge of service quality in non-Western markets, the focus of this paper is to examine one particular field of service quality research, retail service quality, in the former Soviet Republics of Estonia, Latvia, and Lithuania.

The testing of a model of retail service quality, using empirical survey data collected in these three recent members of the European Union, indicates support that the retail service quality construct both aligns and differs, across the three countries. The implication of these similarities and differences are important from two perspectives. The first is the appropriateness of extending Western developed marketing scales and measures within newly emerging, and catching up states. The second implication, which is important to retail practice, questions the position of treating these three countries, known collectively as the Baltic states as a homogenous market. Additional implications to retail practice and future academic research studies are also discussed.

Keywords: Retail Service Quality, Baltic States, Empirical Study.

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INTRODUCTION

Although the extant literature on service quality is vast, (see for example, references in Cronin and Taylor 1992, Buttle, 1996, Zeithaml, 2000, Seth, Deshmukh, and Vrat, 2005, Ladhari, 2008) there is limited research that has attempted to develop measures for this construct within the catching-up states of Eastern Europe and the former Soviet Union. If service quality is truly a global strategic force, as purported by Powell (1995), research needs to be extended to these markets. As promoted by Dabholkar, Thorpe, and Rentz (1996), "future research on service quality should involve the development of industry-specific measures of service quality" (pg. 14) and as voiced by Klenosky, Benet, and Chadraba (1996), in their study of Czech Republic consumers, the effectiveness of research in market economies my not necessarily hold true for all newly transitioned countries.

In order to advance the understanding of one area of service quality, retail service quality was examined. The research begins with a summary review of the retail service quality literature, followed by a discussion of the region of study, the Baltic states of Estonia, Latvia, and Lithuania, and their respective retail environments. A simple retail service quality model is then presented, followed by a review of an empirical study of consumers' perceptions of retail performance as it relates to the retail service quality construct within these markets. The concluding sections of the study discuss the similarities and differences in the findings, and discusses the implications of these findings to future retail service quality practice, and research, within these and similar transition and emerging markets.

THE RETAIL SERVICE QUALITY CONSTRUCT

The study of service quality in general, has received an increasing level of attention, in both the academic and practitioner journals, since the early 1980s. Service quality, as one of the leading research constructs within the services marketing literature, can be attributed to the dominant role that services continue to play in the growth of the world economy (Bateson, 1989, Ginzberg and Vojta 1981, Koepp 1987). As noted by Deming (1986), the goal of service providers should no longer be to satisfy the customer: one must try and "delight" the customer (Rust and Oliver, 2000).

Service quality has been described as a measure of how well the actual service provided aligns with the customer's expectation of the service (Parasuraman, Zeithaml, and Berry, 1988, Berry and Parasuraman, 1997). Taking this view a step further, if a service provider wishes to supply the customer with a high (in relation to some pre-established measure) quality of service, then the service must conform to the customer's expectations (Lewis and Booms, 1983).

In contrast to service quality within pure service encounters, (for example a barber shop, film developing, telephone help desk), in a retail service setting, there exists both a goods and a service component process (the "retail product" may be tangible, such as an item of clothing, or intangible, such as a bank savings account). Retail service quality research continues to be an important construct for study, as research has shown a link between service quality and a better understanding of customer satisfaction and customer retention (Parasuraman et al, 1985).

One of the first to publish research that developed a model of retail service quality was Dabholkar et al (1996). They revisited the work of Parasuraman et al (1985) and also used qualitative research data to better determine what factors best describe service quality in a retail setting (Dabholkar et al 1996). Their resulting model of retail service quality (henceforth RSQ) produced a five factor solution (Physical Aspects, Reliability, Personal Interaction, Problem Solving and Policy).

Subsequent studies of the retail service quality construct have attempted to extend this field of enquiry to other countries. Mehta, Ashok, and Han (2000) looked at testing the Dabholkar et al (1996) RSQ instrument in Singapore, and more recently studies have been conducted in the Philippines (Munoz et al. 2006), and India (Gopalan et al. 2015). These studies are commendable in adding to the understanding of the construct, but in each of these cases, the source country for the research has and continues to go through change, but not to the depth of change that has occurred in the formerly communist countries of Central and Eastern Europe, and the former Soviet Union. The next section of the paper briefly discusses why the selection of the Baltic States as the region of study for this of research was made.

THE BALTIC STATES

Of the many changes that occurred during the break- up of the former Soviet Union, and the movement by countries of Central and Eastern Europe to market based economies, none were more dramatic than those of the retail sector. The transition from a centrally planned communist economic system to a capitalist based free-market economy allowed for buying and selling of goods by individuals and private businesses for profit. The price of, and access to goods was no longer being controlled artificially by the central governments, but by market forces of supply and demand.

With increased retailer choice (and to a limited degree, increased disposable income levels), the retail market began moving from being a seller's market, to a buyer's market. The result has been access to a greater selection of goods, increased consumer purchasing power (Arnold, Chadraba, & Springer, 2001) and an increased entry of foreign based retailers (from within and outside of the European Union - EU) to these formerly closed markets (Alexander, 1997; Semionoviene, 2003; AT Kearney 2006). Consumer accessibility to a wide selection of domestic and foreign-produced goods, and the growth in the number of (and types of) retail establishments, represented a dramatic shift from the period of limited goods, and non-existent retail competition that existed in the communist period (Robinson, 1998).

Briefly, within the former Central and Eastern European new-EU States, and particularly in the Baltic States, the political and economic landscapes have changed. But there still exists a large percentage of the population whose daily lives were shaped under the previous economic and political systems. It is suggested that the vast majority of those living in the Baltic States consider themselves equal to their compatriots in the rest of the EU. The fact though, is that many were inculcated in the way of thinking, and acting, and one's perception of society, and how society works because of communist propaganda. There continues to be evidence that this orientation has not yet fully assimilated (nor is it suggested that it is inevitable) to that of the West (Drakulic, 1992; Mueller and Goić, 2002; Skaaning, 2004).

Therefore the choice of the Baltic States, for research on retail service quality was based on a number of criteria. The first reason was that in comparison to other catching-up countries of Central and Eastern Europe, the Baltic States were formerly Soviet Republics, and thus experienced a greater degree of isolation. Secondary reasons include their relatively small size in terms of geographic area and population (just over 1.3 million in Estonia; 2.3 million in Latvia, and 3.5 million in Lithuania), thus providing a more concentrated venue for empirical study. Furthermore, all three countries have a number of both domestic and international retailers that have entered and/or expanded in these countries during the last decade. In addition, a number of retailers have either taken, or have indicated that they will take, a regional approach to their retail operations in these countries (AT Kearney, 2006). Finally, the Baltic States represent three of the fastest growing retail markets in the EU, in terms of per capita sales (BBN, 2007).

EMPIRICAL STUDY

In order to compare and contrast consumer perceptions of retail service quality across the three countries, a framework for analysis was required. For this study, a three-factor model of retail service quality was used (see Figure 1). As supported in the research literature, both a one-stage and a two-stage model are suggested to best capture the construct from a Baltic State perspective (Dabholkar et al., 1996). Although the expectation is that these models could also reflect the retail service quality construct in the West, the makeup of the items that represent the respective factors are suggested to differ in catching-up countries such as the Baltic States, which are discussed next.

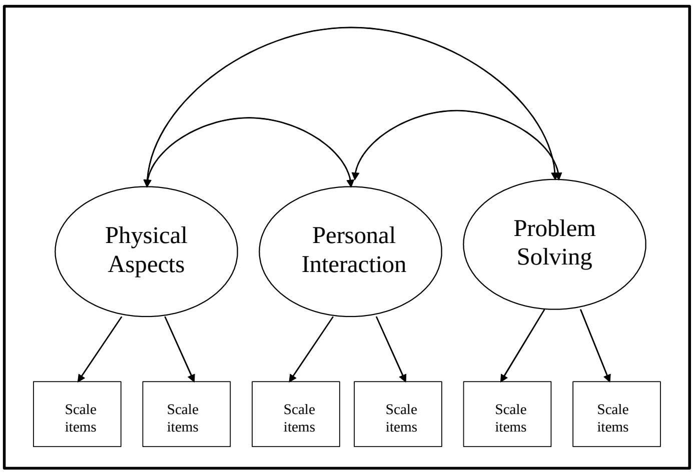
The first dimension, physical aspects, is defined as a measure of the physical indicators of the retail experience. Items to define the dimension include the look, or aesthetics, of the store (i.e. the look of the merchandise displays; the store has a modern look about it), as well as the layout of the store (i.e. easy to find what you want; ease of shopping). A theorized difference in how consumers in the Baltic States may perceive this factor lies in the fact that Baltic consumers have a greater ability, and capability, and now consistency in finding a product themselves. This lies in contrast to their history of chronic product shortages during the Soviet period which created a sense of self-sufficiency in shopping (Mieczkowski, 1975; Kovrig, 1999).

The second dimension, personal interaction, is defined as the actions of the retail service personnel, and how they interact with store customers (Dabholkar et al. 1996). Indicators of personal interaction include knowledgeable, courteous salespeople, and the speed of service provided (Dabholkar et al. 1996; Siu & Cheung 2001). A secondary property of the personal interaction dimension, is the speed or promptness with which the salespeople serve the customer (Dabholkar et al. 1996; Mehta et al. 2000), and is proposed to differ in the Baltic States. It would be reasonable to expect that if consumers were questioned directly, they would prefer prompt versus slow service (Garfein 1988); however, it is suggested that any potential time-saving received from prompt service, would be countered by sacrificing one's shopping self-sufficiency, in product search.

The third factor, problem solving, is the manner in which store salespeople handle customer complaints, or the returning or exchanging of products (Mersha and Adlakha 1992; Dabholkar et al. 1996; Mehta et al. 2000; Siu and Cheung 2001). For retailing in the Baltic States, it is proposed that shoppers would have a different perspective on how this dimension should be measured. The role of personal responsibility in making purchase decisions is viewed to be of greater importance to consumers in catching-up states (Brooks and Lerman, 1994; Fey and Denison, 2003). This position aligns with the personal value labelled hierarchy, by researchers Schwartz and Bardi. (1997). In societies where the hierarchy value, or where the emphasis is placed on the legitimacy of hierarchical allocation of fixed roles and of resources, it is suggested that the legitimacy of the store, as a retailer of goods, makes the store responsible for selling goods that perform as promised. Extending this premise would be that a store should not be expected to take back or exchange goods that were functional, but did not make the customer happy. The store should not be responsible for correcting a consumer's poor judgment.

A further indication of the problem-solving dimension is the ability of store salespeople to handle customer complaints in a direct and immediate fashion (Dabholkar et al. 1996). The relevance of this aspect of the dimension has been supported in the service recovery literature, which views a retailer's ability to make things right, as an important component of service quality (Hart, Heskett, and Sasser, 1990; Swanson and Kelley, 2001). Differences in the culture of those in catching-up sates such as the Baltics', and differences in their consumer retail histories, does suggest a somewhat different interpretation. The historic experiences consumers in the Baltic States have had with formalized rules and regulations in many aspects of their day to day life (Boym 1994; Hoag and Kasoff 1999) leads to the belief that there may be expectations of a formalized complaint handling process, rather than the store being proactive in this role.

In brief, the three proposed dimensions of retail service quality reflect many of the same measurement agendas of existing retail service quality models. The highlighted differences are attributed to the historical differences in shopping behaviour experience by consumers, particularly consumers over a certain age, in comparison to their compatriots in the West. The result is proposed models of retail service quality as depicted in Figure 1. The first is a one-stage model that states that for Baltic State shoppers, retail service quality is viewed at a factor level, and a two-stage model of retail service quality, that states that consumers perceive retail service both at the factor level, and at an overall level. The following section reviews how these models were tested.



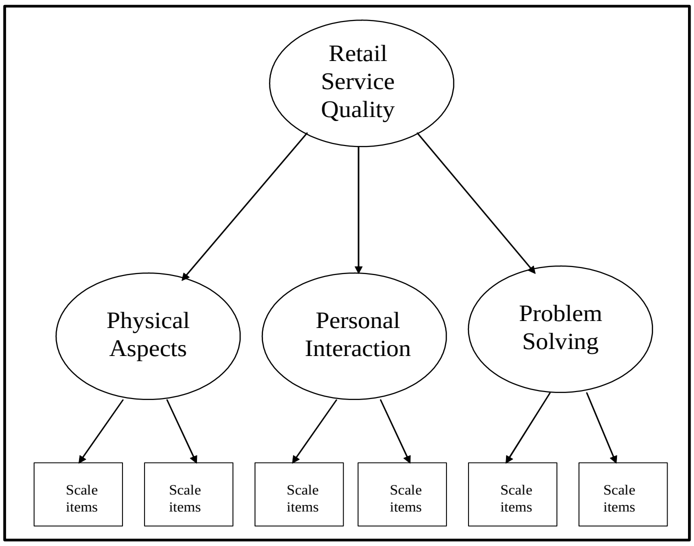


Figure 1. Models of retail service quality in the Baltic States: one and two stage models

DATA COLLECTION

As the focus of this study was to explore the retail service quality construct across the Baltic States, consumer shopping perceptions were required from each country. In order to control for potential bias based on the type of retail format, all sample stores were hypermarkets, which is the dominant retail format in terms of sales in each country. For Estonia the three stores were Prisma (www.prismamarket.ee), Selver (www.selver.ee) and Maksimarket (www.etk.ee). For both Latvia and Lithuania, the same stores were selected, Rimi (www.rimibaltic.com) and Maxima (www.maxima.lt). All stores had multiple locations in their respective capital cities; Tallinn in Estonia; Riga in Latvia; Vilnius in Lithuania.

A paper and pencil, self-completed survey instrument was judged to be the most effective method for collecting the required data. The retail service quality items were included in a larger retail-shopping instrument. Relationships with local Estonian/Latvian/Lithuanian research co-ordinators had been established through earlier fieldwork by the author, with the benefit of using locals in this role as they possessed a more intimate knowledge of the ethnic and socio-economic characteristics of the sample requirements and locale (Krueger, 1994). The local co-ordinators also assisted in the survey translation, which was translated, and back translated into the local language (i.e. Estonian, Latvian, and Lithuanian). Convenience samples were utilized as only those subjects that had visited the store within the last 6 months were included in order to provide consistency about store performance knowledge and perceptions. As found in Table 1 there were 6 items for physical aspects, 6 items for personal interaction, and 5 items for problem solving.

The respondents were asked to answer the question, "Regarding your shopping experience at this store, for the following things please circle 1 if you strongly agree with the statement and 9 if you strongly disagree. A score of 5 represents a neutral feeling", for each of the items. Additional information collected included sex, age range, and a control question based on their preference for shopping at the store ("Is this your favourite store?"). For each of the surveys, the respondents had the option of completing the questionnaire in English or the titular language of each country, namely Estonian, Latvian, or Lithuanian. All questionnaires were translated from English into the respective languages by contacts previously established by the author in each of the three countries. This iterative process with the translators better ensured that local terminology and item clarity was the result. The surveys were administered in similar ways in all countries. For the Estonian and Lithuanian samples, local academics were employed, while a local marketing research firm was used for the Latvian sample.

DATA ANALYSIS

In total, 900 surveys were retained for analysis, 300 from each country. The profile of the sample generally matched that of the author's observations and discussions with retailers in the respective countries in terms of male versus female respondents (32% vs. 68%). Of these, 42% were 25 years or under, 32% between 26 and 40, 21% between 41 and 55, and 5% older than 55. Also, as indicated by the item means and standard deviations, there were a variety of responses to the questions.

The first step in the analysis was to determine the degree that the survey items of retail service represented the latent construct. This was done by calculating coefficient alpha (Churchill, 1979) to assess the reliability of the scale items for the overall retail service factor, as well as the three individual factors. For the 17-items representing retail service quality scale, the alpha was 0.92, indicating the scale items captured the measures of importance to Baltic State shoppers with respect to service quality within a retail setting. The coefficient alpha for the three proposed dimensions were also all above the generally recommended level 0.70 in terms of the strength of association of the scale items (Hair et al. 2003), as shown in Table 2.

Table 2. Reliability Measures

Cronbach Alpha		
Retail Service Quality scale:	17 items:	0.920
Physical Aspects:	6 items:	0.876
Personal Interaction:	6 items:	0.883
Problem Solving:	5 items:	0.822

The next step in the analysis was to determine if the proposed factors were distinct from one another. Each of the three pairs of dimensions (PA/PI; PI/PS; PA/PS), as well as all three factors (PA/PI/PS), were subjected to Principal component analysis (PCA) using varimax rotation, in order to corroborate the position that each of the scale items best represents a measure of its specific dimension (Churchill and Iacobucci, 2005). This analysis (using SPSS 12.00) indicated that all items loaded correctly, and solely on the theorized factor as shown in Table 3. A second verification test was to run a correlation analysis between the three factors. As shown in Table 3 each was significant and below 0.90, this result also indicates discriminant validity between the theorized dimensions.

Table 3. Discriminant Analysis

Principle Component Analysis with Varimax Rotation

Two-Factor Comparisons

Physical Aspects and Personal Interaction

	PA	PI
PA1	***0.811***	0.246
PA2	***0.824***	0.238
PA3	***0.724***	0.187
PA4	***0.805***	0.188
PA5	***0.734***	0.257
PA6	***0.555***	0.378
PI1	0.247	***0.754***
PI2	0.192	***0.731***
PI3	0.168	***0.822***
PI4	0.177	***0.813***
PI5	0.374	***0.704***
PI6	0.399	***0.682***

Physical Aspects and Problem Solving

	PA	PS
PA1	***0.822***	0.185
PA2	***0.837***	0.186
PA3	***0.755***	0.089
PA4	***0.805***	0.155
PA5	***0.752***	0.213
PA6	***0.593***	0.351
PS1	0.115	***0.703***
PS2	0.153	***0.837***
PS3	0.148	***0.834***
PS4	0.200	***0.675***
PS5	0.256	***0.656***

Personal Interaction and Problem Solving

	PI	PS
PI1	***0.785***	0.133
PI2	***0.709***	0.191
PI3	***0.804***	0.173
PI4	***0.814***	0.147
PI5	***0.759***	0.266
PI6	***0.747***	0.270
PS1	0.129	***0.713***
PS2	0.244	***0.816***
PS3	0.197	***0.829***
PS4	0.148	***0.710***
PS5	0.493	***0.539***

Three-Factor Comparison

Physical Aspects and Personal Interaction and Problem Solving

	PA	PI	PS
PA1	***0.801***	0.229	0.157
PA2	***0.815***	0.219	0.160
PA3	***0.727***	0.195	0.062
PA4	***0.801***	0.163	0.145
PA5	***0.714***	0.238	0.174
PA6	***0.519***	0.330	0.282
PI1	0.254	***0.748***	0.11
PI2	0.183	***0.703***	0.182
PI3	0.163	***0.806***	0.165
PI4	0.176	***0.806***	0.138
PI5	0.360	***0.667***	0.230
PI6	0.386	***0.644***	0.230
PS1	0.113	0.119	***0.703***
PS2	0.126	0.244	***0.809***
PS3	0.136	0.188	***0.822***
PS4	0.221	0.091	***0.686***
PS5	0.142	0.491	***0.534***

Correlations

		PA	PI	PS
PA	Pearson Correlation	1.000	***0.599***	***0.457***
	Sig. (2-tailed)		0.000	0.000
	N	900	900	900
PI	Pearson Correlation	***0.599***	1.000	***0.530***
	Sig. (2-tailed)	0.000		0.000
	N	900	900	900
PS	Pearson Correlation	***0.457***	***0.530***	1.000
	Sig. (2-tailed)	0.000	0.000	
	N	900	900	900

Correlation is significant at the 0.01 level (2-tailed).

The next step in the analysis was to determine if the proposed model of retail service quality was supported. This was done by using Structural equation modeling, using AMOS software. Figure 2 presents the factor loadings and covariance of the three factors, for the first and second order models, and the fit indices are summarized in Table 4 (Kline, 1998).

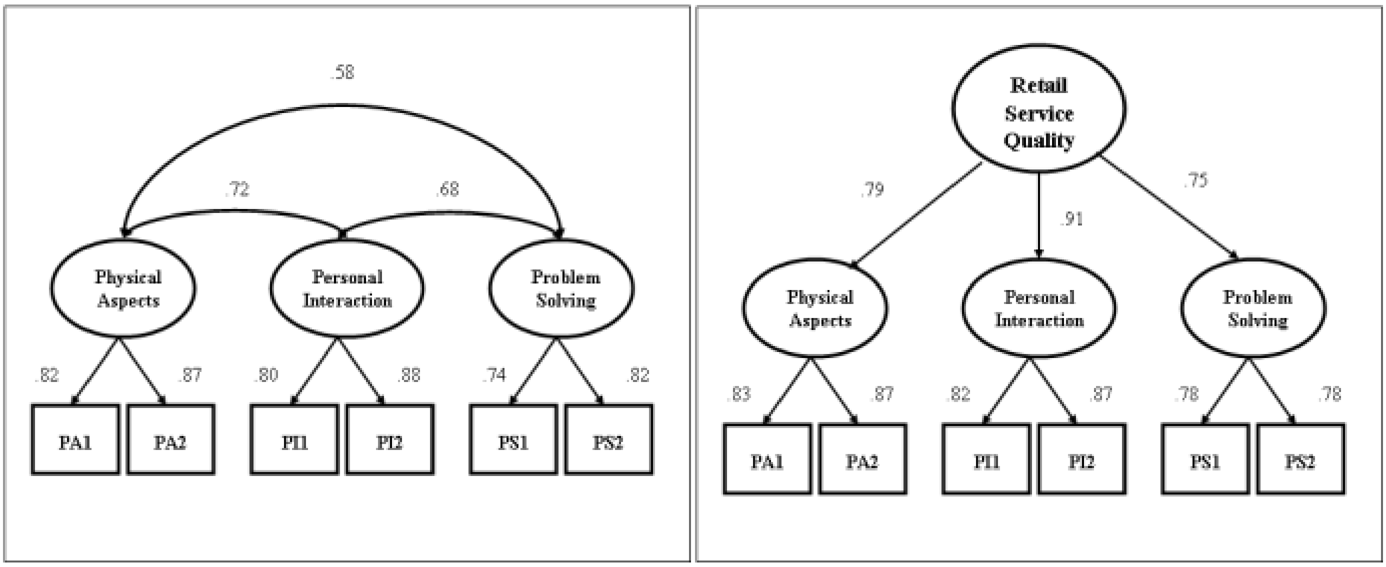


Figure 2. Factor loadings and covariance of the three factors – 1st and 2nd order models

Table 4. Model Fit Indices

Retail Service Quality	χ^2	df	Normed χ^2	GFI	AGFI	TLI	CFI	RMSEA
First order model	12.36	6	2.06	0.99	0.98	0.99	0.99	0.034
Second order model	20.4	9	2.27	0.99	0.98	0.99	0.99	0.038

The first-order model was supported by the statistical tests. The "absolute fit" of the model as measured by the normed Chi-square value was appropriately below the recommended cut-off value of 3.0 at 2.06, and the goodness of fit measures were acceptable, with the GFI=0.99, AGFI=0.98 and TLI=0.99, exceeding the benchmarks of 0.90. There was no evidence of a misfit between the data and the model, with the RMSEA=0.034, which is appropriately below the benchmark of 0.08 (Byrne, 2001). These findings support the position that Baltic State consumers evaluate retail service quality at the dimensional level, as defined by physical aspects, personal interaction, and problem solving.

In order to assess if Baltic State consumers also evaluate retail service beyond the dimension level, at an overall level, the theorized three factors of retail service quality were modeled as a second-order factor model (Dabholkar et al. 1996). The same dimensions and scale items were again analysed using the AMOS software. The second order model was tested and as shown in Table 3 and Figure 2.

As in the first order model, the overall model was supported by the statistical tests. The "absolute fit" of the model as measured by the normed Chi-square value was below the recommended cut-off value of 3.0 at 2.27, and the goodness of fit measures were acceptable, with the GFI=0.99, AGFI=0.98 and TLI=0.99, exceeding the benchmark of 0.90. Again, there was no evidence of a misfit between the data and the model, with the RMSEA=0.038. Although the overall fit indices of the second order model were not quite as strong as the first order model, it was still deemed acceptable, indicating that Baltic State consumers evaluate retail service quality at both a dimension and an overall level.

INTERPRETATION OF SURVEY FINDINGS

Although the empirical work findings was promising, it is presented here only as a foundation for further refinement of service quality measurements. None-the-less, there are a number of findings that are of interest. From a retail practice perspective, as indicated in Table I, 10 of the 17 items of retail service were rated as above the average on the 1-9 scale. This indicates that although not stellar in terms of performance, the major hypermarkets in the Baltic States are perceived as performing better than average, particularly with respect to the physical aspects factor.

From a research perspective, there were also findings of interest. Firstly, although efforts were undertaken to adapt the survey instrument to the local language, additional country specific items may need to be added. For example, the question, "the store layout at this store makes it easy for customers to find what they need" was one of the six measures of the Physical Aspects factor in the Dabholkar et al (1996) model. For Baltic consumers, this item was not perceived as significant to this factor.. The implication may be that Baltic consumers, who have a more intimate knowledge of product shortages, based on the previous economic environment, are more inclined to be concerned with in-stock positions, and not the time required to find items (Kovrig, 1999). Future research should address these and other potential differences. Secondly, tests with the Baltic data did not indicate any sub-dimensions for the retail service quality factors (as was reported by Dabholkar et al, 1996). This may suggest less complexity, less discerning consumers in catching-up states when evaluating service quality factors. Finally, research by Schwartz and Bardi (1997) found that citizens in Eastern Europe and the Former Soviet Union differed from their counterparts in Western Europe by scoring higher in the values of Conservatism (emphasis on the status quo, respect for tradition, obedient), and Hierarchy (legitimacy of roles and resources) and lower in the value ratings of Egalitarianism (equality, freedom, social justice), Affective Autonomy (enjoying life, pleasure) and Intellectual Autonomy (creativity, curious, broad-minded) (there were no significant differences in Harmony and Mastery). The implication of these differences may be important in judging the appropriateness of applying Western developed marketing scales within catching-up states, and may also have an impact on how marketing constructs such as service quality should be developed.

In summary the survey findings indicate that although the service quality construct appears to extend to the Baltic States, future research should continue to expand this research from a more emic, or local perspective, although in discussions between the author and local retailers, there was a general consensus that due to the relatively small nature of the Baltic retail market, a regional perspective in terms of service delivery would continue to be the case unless significant findings indicate otherwise. Thus additional research into service quality and cultural variance may provide an interesting field to advance this research.

CONCLUSIONS AND FUTURE STUDY

In catching-up states such as Central and Eastern Europe, and the Former Soviet Union, there continues to exist a need to determine valid models and measures of marketing constructs developed, and tested, in developed markets (Craig and Douglas, 2001). There are a limited, but growing number of marketing studies using transition, or catching-up economies as the region of study.

The continued introduction and growth of Western business practices, influences, goods and services, does not in itself generate the level of change that catching-up states require, without grounded market specific research (Shen, 1994). As marketing, as a profession, continues to have a greater global perspective (Keegan 1995), the significance of international generalizable research increases (Craig and Douglas, 2001). There exist considerable examples of research on defining, testing and developing models of service quality measurement, but what the literature assumes is that the subjects of study have developed an understanding, or Western view of service quality and the broader view of customer satisfaction within a market based economy.

This study demonstrates the importance of studying retail service quality in catching-up states. We did find tentative support for an existing model of retail service quality (Dabholkar, et al, 1996) on the three dimensions of Physical Aspects, Personal Interaction and Problem Solving; however, there were some caveats to the findings, indicating cross cultural inconsistencies. These included store layout, promptness of service, and the existence of service quality sub-dimensions. It is suggested that there is value and knowledge to be gained from broadening the service quality field of research to encompass the untested marketplaces within catching-up states. It is further suggested that the area of service quality within the retail sector provides an exemplar of service quality research in catching-up states, which may serve as a stepping off point for future studies.

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