CHAPTER - 4

Theoretical Framework

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CHAPTER: 4
THEORETICAL FRAME WORK

Introduction:

This part will provide the conceptual frame work based on literature review. This chapter will explain the key factors, variables and the relationships among theories or models and provide a theoretical overview. The conceptualization will help in answering the research questions and also will guide in the data collection process for this study.

The main purpose of the study is to gain better understanding of the customer satisfaction measurement of Internet Banking service facilities users. Because satisfaction is the key factor which leads to the Loyalty, loyalty leads to the attracting more customer, expansion of business and increase in net profit.

4.1. Theoretical Frame Work:

The importance of customer satisfaction in the internet services context has been highlighted by recent statistics cited in the work of Cheung and Lee (2005), which showed that 80% of highly satisfied online consumers would shop again within two months, while 90% would recommend the internet shops they use to others. Furthermore, 87% of dissatisfied customers stop using the services of online shops without any complaints.

Customer satisfaction is a complicated mix of 'hard wares' (technology, product, price, quality, etc.) and 'soft wares' (attitude, responsiveness, deliverance, communication, etc.). On one hand, it is a curious mix of facts, and on the other, the perception of customers (Ravichandran & Thyagarajan, 1998).

Thus, customer satisfaction means not only giving the customer a good product, but also ensuring customers feel that he can get a genuine product. Therefore, customer satisfaction is a guide; and product and technology are the focus to achieve business objectives. As the customer expectations keep on changing with changing environment, customer satisfaction becomes a dynamic issue and a determined effort is to be continuously made to accesses it (Ravichandran et al, 1998). In a competitive environment, identification of customer needs these are not being addressed properly, will give a wide scope for development.

In recent years, consumer satisfaction / dissatisfaction (CS / D) has begun to emerge as a major topic in the field of consumer research (Keith Hunt, 1977). In a rapidly expanding competitive environment, banks are no longer confined to their traditional activities, but are venturing into unknown financial territories (Mishra & Sarangi, 2000).

The fierce competition has compelled all the banks to analyze themselves and to devise suitable strategies based on the concept of customer satisfaction – providing the customer with what he wants, when he wants, and where he wants (Lewis & Smith, 1989; Aurora & Malhotra, 1997; Mishra & Sarangi, 2000). The level of customer satisfaction has becoming one of the major targets in the hands of bankers to increase their future business.

Quality has been recognized as a strategic tool for attaining operational efficiency and improved business performance, and is one of the most important parameter of customer satisfaction (Anderson and Zeithaml, 1984; Babakus and Boller, 1992; Garvin, 1983; etc.).

Several authors have discussed the unique importance of quality of service firms (Norman, 1984; Shaw, 1978; etc.) and have 140 International Research Journal of Finance and Economics - Issue 59 (2010) demonstrated its positive relationship with customer satisfaction and repeat purchases (Anderson et al, 1994; Boulding et al, 1993; Rust & Oliver, 1994; etc.). One of the obvious conclusions is that firms with superior quality products outperform these marketing inferior quality products (Jain & Gupta, 2004).

As stated above, there is an abundance of material that examines service quality and related aspects. In spite of the volume of research, it is fair to state that opinions differ, with regard to the conceptualization, definition and method of measurement.

Academic literature on service quality is divided on how service quality should be conceptualized. Early work (Gronroos 1982 and 1984; Lewis and Booms 1983; Parasuraman et al. 1985 and 1988) on service quality conceptualized it as a disconfirmation process. The rationale of the disconfirmation model is that service quality can be measured by measuring both expectations and perceptions and equating the difference scores from the two measures to service quality.

However, various studies have found a poor fit for the disconfirmation model. In particular, Teas (1993) asserts that the model has conceptual, theoretical and measurement problems, Spreng and Olshavsky (1992) contend that the model suffers from problems with regard to the measurement of expectations. Due to these problems with the disconfirmation model, researchers are increasingly ignoring expectations completely and measuring perceptions as indicators of service quality.

Andaleeb and Basu (1994), Mittal and Lassar (1996) report that this approach results in good predictive power of service quality. Babakus and Boiler (1992), Cronin and Taylor (1992) compared the computed difference scores with perceptions and found that perceptions are a superior predicator of service quality than disconfirmation. There is another significant advantage in measuring perceptions only, data collection is much easier since there are only half the number of items in a questionnaire.

Disconfirmation is also the major issue related to another debate on the measurement of service quality. When expectations and perceptions are measured separately, the computed difference scores for disconfirmation have problems of reliability, discriminate validity, and variance restriction (Brown et al. 1993; Peter et al. 1993). These authors contend that a direct measurement of difference between expectations and perceptions is superior to a computed difference in overcoming measurement problems. It is a position supported by more recent research (Dabholkar et al. 2001).

Early service quality models (Gronroos 1978; LeBlanc and Nguyen 1988; Parasuraman et al. 1988) have tended to conceptualise factors related to service quality as components of service quality. For example, the SERVQUAL instrument is a 22-item scale for measuring service quality along five diniensions: reliability, responsiveness, assurance, empathy and tangibles (these five dimensions were recast from the 10 dimensions, comprising of tangibles, reliability, responsiveness, communication, credibility, security, competence, courtesy, understanding / knowing the consumer and access).

This instrument (developed with data collected across five separate service categories, namely, appliance repair and maintenance, retail banking, long-distance telephone, securities and brokerage, and credit cards) was initially proposed by Parasuraman et al. (1988) and later refined by Parasuraman et al. (1991,1993 and 1994a). The underlying rationale in the SERVQUAL model, and many of its contemporary models, is that service quality is not viewed as a separate construct, but composed of components, and that the measurement in combination of these components (also referred to as factors and/or dimensions) will result in an estimate of service quality.

A large number of studies that have been carried out since have espoused this conceptualization (for example, Babakus and Boiler 1992; Boulding et al. 1993; Cronin and Taylor 1992; Zeithamal et al. 1996). A considerable drawback of this single item approach is that it is impossible to ascertain the reliability of the construct. The concern here is that, when service quality is conceptualized as being composed of factors, it fails to capture the effect of the relevant factors as antecedents of service quality and also fails to capture customers' overall evaluations of service quality as a separate, multi-item construct.

Table 4.1: Selected Literature of online service quality and customer satisfaction

Authors	Reliability	Responsive-ness	Security	Ease of Use	Access
Parasuraman et al (1985)	Y	Y	Y	-	Y
Parasuraman et al (1988)	Y	Y	-	-	-
Johnston (1995)	Y	Y	Y	-	Y
Johnston (1997)	Y	Y	Y	-	Y
Doll & Torkzadeh (1998)	-	-	-	Y	-
Joseph et al (1999)	-	-	Y	-	Y
Netal (2000)	Y	-	Y	-	-
Zeithaml et al (2000)	Y	Y	Y	-	Y
Liu & Arnett (2000)	Y	Y	-	-	-
Jun & Cai (2001)	Y	Y	Y	Y	Y
Yang & Huang (2001)	Y	-	-	Y	-
Madu & Madhu (2002)	Y	Y	Y	-	-
Wolfinbarger & Gilly (2002)	Y	-	Y	-	-
Santos (2003)	Y	-	Y	Y	-
Jun (2004)	Y	Y	Y	-	-
Yang & Fang (2004)	Y	Y	Y	-	-
Yang (2004)	Y	Y	Y	Y	Y

Table 4.2: Research Measurement Criteria used for customer satisfaction

Dimensions	Measurement Criteria	Supportive Articles
Reliability	The ability of the Internet Bank to keep service promises accurately, consistently and also perform the service right the first time.	Parasuraman's et al (1985) Jun & Cai (2001) Santos (2003)
Responsiveness	The ability of Internet bank to provide prompt service, quick problem solving and convenience services.	Jun & Cai (2001)
Security	Low risk associated with online transaction, personal information safety and online transaction safety.	Yang et al (2004) Jun & Cai (2001)
Ease of Use	Convenience for the customers to interact with the bank through the internet.	Doll & Torkzadeh (1998)
Access	Approachability and ease of contact of service	Jun & Cai (2001)
Service Loyalty	Considers using only same service provider when a need of this service exits	Gremler & Brown (1996)
Recommendations	Customer keep loyal energetically recommend other customers the product and service of the enterprise.	Barnes & Glosenese (1887)
Expected Repurchase	The intension of a customer to repurchase product/ services through a particular e-service vendor.	Beatty et al (1998)
Customer Satisfaction	Evaluation between the customers' expectations and what they would receive from the product and services.	Oliver (1980) TSE & Wilton (1998)

In order to address this issue, a few studies (Dabholkar et al. 1996; Taylor and Baker 1994) have examined overall service quality as composed of multi items. More recently, Dabholkar et al. (2001) have concluded that factors related to service quality should be viewed as antecedents of service quality and not as components.

In view of the problems outlined with the disconfirmation model of service Quality, this research conceptualizes and measures service quality as perceived by consumers. Additionally, it treats dimensions related to service quality as antecedents of service quality.

4.2. Service Quality Model (Servqual Model):

Parasuraman *et al* (1985) undertook a Qualitative Research to investigate the concept of Service Quality. They arranged an in-depth interview with the executives and Focus Group interviews with customers to develop a model of Service Quality. They proposed the following Service Quality model according to their research:

Parasuraman *et al* (1985) identified ten key determinants of Service Quality. They are: Reliability, Responsiveness, Competence, Access, Courtesy, Communication, Credibility, Security, Understanding, Tangibles.

In 1988, Parasuraman *et al* arranged a quantitative Research. They revealed an instrument for measuring consumers' perception of Service Quality, after that it became known as SERVQUAL. They collapsed their dimensions from ten to five. The dimensions were:

- Tangibles - physical facilities, appearance of personnel and equipment.
- Reliability - ability to perform the promised service dependably and accurately.
- Responsiveness - willingness to help customers and provide prompt service.
- Assurance - Assurance (combination of items designed originally to assess. Competence, Courtesy, Credibility, and Security) -

ability of the organization's employees to inspire trust and confidence in the organization through their knowledge and courtesy.

- Empathy - Empathy (combination of items designed originally to assess Access, Communication, and Understanding the customer) - personalized attention given to customer.

Organizations can use SERVQUAL in various ways. Parasuraman *et al* (1988) mentioned that SERVQUAL can help the Service and Retailing Organizations in assessing the expectations of customers and Service Quality perceptions. It can focus on the core areas where managers need to take attention and action to improve Service Quality.

4.2.1. Criticism of SERVQUAL

Much criticism emerged against the SERVQUAL. Some of the reviewed criticism of SERVQUAL is as follows:

Carman (1990) suggested that the five service quality dimensions are inconsistent in cross sectional analysis. He found that some of the items loaded different components when compared to different service providers. As mentioned earlier, Parasuraman *et al* (1988) converted Understanding and Access component into Empathy. Carman did not find it appropriate combinations in his research. Carman also noted that the difference between expectations and perceptions concept is operationally difficult to follow. He suggested that future researchers should analyse the expectation and perception at the individual level.

Babakus and Boller (1992) supported Carman's (1990) idea about the dimensions of Service Quality. He found that the Service Quality dimensions are under investigation depending on the type of service. He identified that there are some operational problems in the expectations and perceptions gap analysis.

Brown *et al* (1993) argued that the "difference score" (perception minus expectation) has some operational problems. Therefore, they suggested that a "non-difference score" measure is superior to "difference score" measure.

After the criticism of Brown *et al* (1993), Parasuraman *et al* wrote an article in the same year where they proved that non-difference score measure is debatable. Brown *et al* (1993) mentioned that SERVQUAL mean was 0.82 and non-difference score measure mean was 4.51. Parasuraman *et al* (1993) argued that 0.82 is the ideal standard of expectations because it implies that the average respondents' perceptions fell short of their expectations. In contrast, the mean of 4.51 draws the opposite conclusion. It raises the validity question of non-difference score measure.

In 1992, Cronin and Taylor criticised Parasuraman *et al* (1988) conceptualization of service quality. Parasuraman *et al* (1988) described service quality as ".......similar in many ways to an attitude." So, managers and researchers could get more information if the construct measurement was conformed to an attitude-based conceptualization. Therefore, they suggested nullifying the expectation portion from the SERVQUAL. They argued that only performance dimensions could predict behavioural intensions and they termed it as SERVPERF.

Gilmore (2003) summarised the criticism of SERVQUAL is as follows:

- The gaps model - some researchers mention that there is a little evidence that customers assess service quality in terms of performance and expectation gaps.
- Dimensionality - SERVQUAL's five dimensions are not universal. The number of dimensions comprising SERVQUAL is contextualized and there is a high degree of intercorrelation between the five dimensions.
- Expectations - some researchers argue that measuring

expectations is unnecessary. If they are to be measured, expectations and perceptions should be measured on a single scale.

- Item Composition - four or five items cannot capture the variability within each SERVQUAL dimension.
- Scale Points - the seven-point likert scale is flawed. The mid-range numbers can only be vaguely related to varying degrees of opinions and many respondents may rate these differently.
- Polarity - the reversed polarity of items on the scale causes respondent error. In the SERVQUAL instrument some items are reversed to ensure that respondents do not fall into the habit of marking the same scale point for each question; however this can cause confusion.

4.2.2. Service Quality in Banking

Service quality is important in the retail banking sector. Some of the reviewed literatures are presented below:

Bahia and Nantel (2000) conducted a research to develop a valid measurement of perceived service quality in the Retail Banking sector in Canada. They argued that the SERVQUAL approach has not except from critics; therefore, they developed a new measurement for perceived service quality in Retail Banking. They proposed a scale that was called Bank Service Quality (BSQ). It comprises 31 items classified across six dimensions as: effectiveness and assurance, access, price, tangibles, range of services offered and accuracy and reliability. They proved that the dimensions of BSQ are more reliable than the dimensions of SERVQUAL.

Glaveli *et al.* (2006) stated that BSQ is more reliable than SERVQUAL. Stafford (1996) conducted research to identify the core elements of BSQ and identified seven attributes in assessing BSQ. They are as follows:

- Bank atmosphere - environment of the bank including the attitude of the staffs.
- Relationship -it indicates the personal relationship with the bank employees.
- Rates and charges - an individual's perception of BSQ is affected by the low cost and high interest rates.
- Available and convenient services - it indicates the full range of available services, convenient and easily accessible.
- ATMs - it indicates the availability of the automatic teller machines.
- Reliability/honesty - it emphasises on the solid bank ratings and reliable, honest staff.
- Tellers - enough and accessible tellers.

Angur *et al* (1999) examined the applicability of alternative service quality measure in the Retail Banking industry in India. They conducted their research on the consumers of two major banks in India. They use SERVQUAL model to measure the overall service quality. They found that all the dimensions are not equally important in explaining variance in overall service quality. The result indicated that responsiveness and reliability seem to be the most important dimensions followed by the empathy and tangible dimensions; whereas, assurance appears to be the least important dimension. Finally, they concluded that SERVQUAL is the best measure of service quality in banking industry.

The applicability of the SERVQUAL measure is well established in the retail banking industry. As mentioned earlier, Angur *et al* (1999) stated that SERVQUAL is the best measure of service quality in the retail banking industry in the developing country. Most of the researchers use the SERVQUAL measure or the modified SERVQUAL measure in the retail banking industry.

From the above discussion it can be concluded that SERVQUAL is still suitable as an assessment tool to measure the service quality perceptions in the retail banking industry, whether it is based on difference score, gap score or performance only.

4.3. Benefits of Internet Banking:

Customers:

Consumers are embracing the many benefits of Internet banking. The following are a few advantages that e-banking gives to customers:

- Consumers can use their computers and a telephone modem to dial in from home or any site where they have access to a computer.
- The services are available seven days a week, 24 hours a day. Transactions are executed and confirmed quickly, although not instantaneously. Processing time is comparable to that of an ATM transaction.
- In general, the customer will find lower fees and higher interest rates for deposits due to the reduced cost of operating online and not needing numerous physical bank branches.
- And the range of transactions available is fairly broad. Customers can do everything from simply checking on an account balance to applying for a mortgage.

- The interface is very user-friendly and often intuitive. Additionally, business customers will most likely use the Internet for more than cash management, and they will be accustomed to a similar "look and feel" among all applications that they use.

Banks:

Why should a bank 'bank online'? Advantages previously held by large financial institutions have shrunk considerably. The Internet has leveled the playing field and afforded open access to customers in the global marketplace. Internet banking is a cost-effective delivery channel for financial institutions. The bank has an opportunity to generate revenue, decrease operational and transactional costs, increase productivity, and attract new customers.

Ability to increase Revenue:

Financially, the bank can benefit a great deal from providing their customers with an online banking service. The bank has the ability to increase revenue by generating user and transaction fees for the use of a bill payment product and has the option of charging an account access fee for the use of the online system. Online banking provides an excellent promotional opportunity to generate revenue by helping the bank to cross-sell products such as credit cards, loans, certificate of deposits, and other financial services.

Save Money:

In addition to making money, the bank can save money with an Internet banking system. Online banking can actually decrease operating costs by reducing the daily reproduction and distribution of paper-drawn transactions and delivering and processing statements for accounts, credit cards, and bills. Performing transactions via the Internet also provides cost savings, as indicated by a study done by Booz, Allen & Hamilton that shows a transaction over the phone costs $.54, at an ATM it costs $.27 and via the Internet the cost is $.01. Using the Internet to perform transactions greatly reduces the cost to the bank.

Improves Productivity:

Internet banking improves productivity as well. Bank representatives are able to process data more quickly and efficiently; track account activity with automated reports, help customers achieve daily tasks via the Internet, and reduce time spent handling service problems. There can be a dramatic reduction in the number of customer service calls, as some banks that are providing this service has proven.

Marketing & Competitive Tool:

Internet banking also offers the bank an exceptional marketing and competitive tool. Large banks such as Nations Bank and Wells Fargo, in the United States, have already capitalized on the Internet as a mechanism to attract new customers. The majority of people using the Internet are middle to high income and polls indicate that 50% of the people online are either in professional or managerial positions. These people are also the ones who want to have the convenience of online banking for home or business use. This is an excellent opportunity for the community bank to keep their hometown customers from looking to national institutions for an online product.

Innumerable services are available via the Internet today. Internet banking provides a higher level of convenience that both commercial and retail customers desire to have. With this service, the bank not only has the opportunity to manage their business better, but can also help their customers achieve a much more efficient process of managing their finances.

4.4. Research Question:

Despite so many additional and quick service facilities available on internet banking the acceptance/adoption of internet banking was not up to the mark in Indian context. If we see the international adoption rate it was quite satisfactory.

1. Measuring the customer satisfaction of net banking users because it leads to make customer more loyal and hence loyalty leads to the attracting more customer, expansion of business and increase in net profit.
2. Is there any relationship between adoption of internet banking service facilities and customers satisfaction?
3. What are the other reasons behind the low adoption rate of Internet banking service facilities provided by the banks?
4. Are customers afraid about the misuse of their account information when they are operating their account using internet?
5. How much customers rely on their banks towards maintenance of their account and the privacy issues?
6. Security provided by the bank to their Internet Banking account users is known to all?

This study also attempts to contribute to the literature on Factor determinant of the satisfaction level of consumers/customers by applying various statistical tools and techniques.

Which factor influences the most to the customer to adopt Internet banking service facilities? It's not only high light the Positive factor but also try to high light the negative factor of the internet banking adoption by the customers and the satisfaction level of customers by using the net banking services. Are customer fared about their account with the use of internet banking? What is the level of security and how customer feels about secrecy etc?

Recently many banks in India are offering the internet banking to provide their customers 24 hours a day and 7 days a week online choice. The customers are allowed to purchase e-service anytime and anywhere they want (Hoffman and Bateson, 2002).

With the high competition in internet banking industry in India, it is obvious that banks need to set up web sites to provide quality information and services to customers, so as to satisfy customer's needs.

Many researches show that service quality is one of the key factors in determining the success of e-commerce (Yang, 2004). Moreover, delivery of superior service has become one of the most important ways to gain superior profitability (Kotler, 2000).

Service quality has to be found to be an important input to customer satisfaction (Caruana & Malta 2002). Yand & Fang (2004) identified online service quality dimension and their relationship with satisfaction. These service quality dimensions are reliability, responsiveness, ease of use and competence.

Oppewal and Veriens (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 & Tangibles.

A number of Academicians such as Parasuraman et al. (1985, 1988); Gaonroos (1990); Johnston (1995) and others have tried to identified key determinants by which a customer assesses service quality and consequently results in satisfaction or not.

The increasing number of the internet uses worldwide, including India, led to the higher competition in internet banking industry than ever before. In such a competitive market place, understanding a customer's needs has become one of the most important factors in determining the company's success.

As a result, companies have moved from a product centric to a customer centric position (Hanson, 2000). Apparently, Banks need to provide customers with high quality services to satisfy the customer. Hence, they can gain more market shares in the online marketing paradigm. The main purpose of this study is:

To measure the satisfaction level of internet banking users with a selected banks and customers in western India because it leads to make more loyal customer and hence loyalty leads to the attracting more customer, expansion of business and increase in net profit.

4.5. Research Gap:

From the Review of Related Literature it has been concluded that very few studies had been conducted in India on the topic of measurement of customer satisfaction of internet banking while at global level a number of studies had been conducted on the same topic. So there is a major gap in between International and Indian Scenario.

Most of the study had been conducted on the basis of 5 point of Servqual Model. But this study includes the Expectation of a customer which is not a part of Servqual Model. So this study will be an improvement on Servqual Model developed by Parasuraman in 1985.

In western India no any studies had been conducted in the past on the topic of measurement of customer satisfaction of internet banking users in a selected city of western Indian states. This study fills the gap regarding the absence of any study on the same topic in the region.

On banking sector there is a lot of work in western Indian region had been conducted by a number of researchers but measurement of customer satisfaction of internet banking users has not been covered by any researcher yet in this region. This study fills the gap between Domestic and international level, improvement on Servqual Model and pioneering study on the same topic in western Indian region. This paper makes an attempt to measure customer satisfaction of internet banking users in a selected city of Western Indian states for the first time.