CHAPTER 3
DEVELOPMENT OF RESEARCH APPROACH

This chapter is one of the most important parts of the study. It discusses the conceptual gaps identified by the literature review in chapter 2. The theoretical framework of the study is explained and a hypothetical model relating service quality, customer satisfaction and behavioural intentions is proposed. Research hypothesis addressing the research objectives are also presented in this section.

3.1 Conceptual Gaps

3.1.1 Conceptual Gap 1

The first conceptual gap is regarding the lack of consensus in literature on dimensions of service quality in the given context of Indian banking and insurance Sector. Based on the literature review, it is concluded that the impact of SERVQUAL in the domain of service quality measurement is widely accepted, and although few of its claims remain disputed (Smith 1995) it should be noted that even its major critics acknowledged its popularity (Brown et al. 1993; Cronin & Taylor 1992; Teas 1994). An alternative with the same level of general appeal and market dominance is yet to be produced. Therefore it is concluded that SERVQUAL is an appropriate tool for assessing service quality but with appropriate modification and adaptations. It is recommended that items on seven or eight of the original ten PZB dimensions be retained until factor analysis shows them to be unique (Carmen 1990). The researcher also suggested that the SERVQUAL needed to be customized by adding items or changing the wording of items. Parasuraman et al. (1991) themselves suggested the need to supplement SERVQUAL with context specific items. Although numerous researchers have made theoretical and empirical contribution to the study of service quality, most of the research has been in the developed countries, even though services are among the fastest growing sectors in emerging countries. At this point where economies like India have recently gone through the liberalization phase, it
becomes very important to study service quality in financial services, mainly banking and insurance. The measurement scale applied in developed countries like UK and U.S. cannot be directly applied here, as the context is going to be different. Therefore this research tries to fill the gap in literature, by developing a measurement scale basically based on original ten dimension of Service quality proposed by Parasuraman et al. (1985).

3.1.2 Conceptual Gap 2

The second conceptual gap relates to a lack of consensus in published empirical research regarding the relationship of higher-order constructs with service quality: customer satisfaction and favourable behavioural intentions. Past studies have investigated the relationship between service quality and consumer satisfaction. Although some authors conclude to the antecedent role of consumer satisfaction regarding service quality (e.g., Bolton & Drew 1991; Boulding et al. 1993), most of them support the reverse hypothesis i.e. service quality is an antecedent of consumer satisfaction (Cronin & Taylor 1992; Dabholkar et al. 2000). A lot of studies conclude to the positive impact of consumer satisfaction on Behavioural Intention (Cronin & Taylor 1992; Fornell 1992; Fornell et al. 1996). Concerning the service quality – behavioural intention relationship, some evidences suggest the existence of direct and others a mediating role of customer satisfaction in the link (Zeithaml et al. 1996; Dabholkar et al. 2000). Only few researchers investigated the mediating role of consumer satisfaction in the relationship between service quality and behavioural intention in totality as a hypothetical model. This study intends to bridge this gap in the context of Indian banking and insurance services by developing a hypothetical model relating all these variables.

3.1.3 Conceptual Gap 3

The third gap identified in the literature relates to the lack of published empirical research on customers’ perceptions of service quality in banking and insurance sector in India and studies pertaining to the service quality dimensions that customers perceive to be more or less important during their experience. This gap is important as this information can be
used by managers for periodic monitoring of service quality. It will also provide directions to service providers as to which particular dimension require attention in terms of their importance. This would enable the service providers to focus resources in accordance with the importance of these dimensions. Further, the service quality index derived by aggregating the scores on these dimensions can also be developed, which can be used for benchmarking their performance against competitors.

3.1.4 Conceptual Gap 4

The fourth conceptual gap relates to a lack of empirical studies on the effect of demographic characteristics on customers’ perceptions of service quality, customer satisfaction and behavioural intentions in the given context. This is important because customers come from different social and personal backgrounds that will affect an individual’s overall evaluation of service quality, customer satisfaction and behavioural intentions.

3.2 Theoretical Framework

The literature review presented in Chapter 2 serves as a basis for the development and discussion of the following theoretical framework.

Parasuraman et al. (1985) suggested that there are three underlying principles that are used to establish a construct by which to evaluate service quality:- (1) Service Quality is more difficult for the consumer to evaluate than the quality of goods, (2) Service Quality is based on consumer’s perception of the outcome of the service and their evaluation of the process by which the service was performed, (3) Service quality perceptions result from a comparison of what the consumer expected prior to the perceived level of service received.
Parasuraman et al. (1985) suggested ten determinants of service quality that included tangibles, reliability, responsiveness, competence, courtesy, credibility, security, access, communication and understanding the customer. These ten dimensions and their descriptions served as the basic structure of the service quality domain from which items were derived for the development of measurement scale. Each quality dimension was quantified by obtaining measures of expectations and perceptions of performance levels for service attributes relevant to each dimension, calculating the difference between expectations and perceptions of actual performance on these attributes, and then averaging across attributes.

**Proposition 1:** The dimensions that define perceived service quality in this study are similar to the dimensions (tangibles, reliability, responsiveness, access, competence, credibility, courtesy, communication, security and understanding the customer) that have been found to comprise the construct of service quality by Parasuraman et al. (1985).

**Figure 3.1 Determinants of Perceived Service Quality (Adapted from Parasuraman et al. 1985)**
3.2.1 Hypothetical Model

The literature review in this study finds that majority of the researchers consider satisfaction as an outcome of service quality (Cronin & Taylor, 1994; Parasuraman et al. 1994; Taylor & Baker 1994; Teas 1994). Thus, service quality is an important input to consumer satisfaction and it is expected that the higher the perceived quality of a product, the higher the consumer satisfaction. Hence the following proposition is made

“Proposition 2: Service quality is an antecedent of Customer satisfaction”

There is substantial empirical and theoretical evidence in the literature that there is a direct link between perceived service quality and behavioural intentions (Bitner 1990; Bolten & Drew 1991a). Similarly, variety of studies supports the link between customer satisfaction and behavioural intentions (Fornell 1992; Taylor & Baker 1994; Patterson and Spreng 1997). There is also evidence to suggest a causal path, with perceptions of service quality influencing feelings of satisfaction, which in turn influenced future purchase behaviour of customers. To summarize, the main issue is whether the direct effect of SQ on BI (SQ→BI) is significant or will satisfaction fully mediate the impacts of SQ on BI (SQ→SAT→BI) in banking and Insurance sector.

“Proposition 3: Customer satisfaction has a mediating influence between service quality and behavioural intentions”

A hypothetical model, which aims to examine the predictive ability as well as the nature and strength of relationship between service quality, customer satisfaction and behavioral intentions, is developed as in Figure 3.2. A two level analysis has been employed to draw causal inferences regarding the postulated relationship among the studied variables. The first level investigated whether Service quality and customer satisfaction has a direct relationship behavioural Intentions. At the second level, the mediating (indirect) relationship between service quality and behavioural intentions where customer satisfaction has been identified as a mediating variable is investigated.
3.3 Hypotheses development

Based on the four research objectives, hypotheses have been developed for the study.

3.3.1 Hypotheses relating to research objective 1

The first research objective is to identify the relevant service quality dimensions used by customers to assess service quality in banking and insurance sector.

H1: Service quality is a multidimensional construct and is defined in terms of dimensions--tangibles, reliability, responsiveness, access, competence, credibility, courtesy, communication, security and understanding the customer.
H1.1: Tangibles is associated with Service quality
H1.2: Reliability is associated with Service quality
H1.3: Responsiveness is associated with Service quality
H1.4: Access is associated with Service quality
H1.5: Competence is associated with Service quality
H1.6: Credibility is associated with Service quality
H1.7: Courtesy is associated with Service quality
H1.8: Communication is associated with Service quality
H1.9: Security is associated with Service quality
H1.10: Understanding the customer is associated with Service quality.

3.3.2 Hypotheses relating to research objective 2

The second research objective is to determine the relationship between perceived service quality, customer satisfaction and customer’s behavioural intentions.

On the basis of the evidence that there are direct (SQ → BI) and indirect relationships (SQ→ CS→BI) between service quality, satisfaction and behavioural intentions, the following hypotheses are proposed:

**The direct Relationship:**

H2: Service quality has a direct positive relationship with customer satisfaction.
H3: Service quality has a direct positive relationship with Behavioural Intentions.
H4: Customer Satisfaction has a direct positive relationship with Behavioural Intentions.

**The indirect Relationship:**

H5: Customer satisfaction mediates the relationship between service quality and Behavioural Intentions.
3.3.3 **Hypotheses relating to research objective 3**

The third research objective is to measure service quality and compare major players on service quality, customer satisfaction and behavioural intentions

H6: There is a significant gap between the customer’s perceptions and expectations of service quality in banking and insurance sector.
H7: Service quality dimensions will positively influence overall service quality.
H8: Service quality dimensions will positively influence customer satisfaction.
H9: Service quality, customer satisfaction and behavioural intentions will differ between major companies in banking and insurance sector.

3.3.4 **Hypothesis relating to research objective 4**

The fourth research objective is to examine the effects of demographic factors on customers’ perceptions of the service quality dimensions, service quality, customer satisfaction, and behavioural intentions.

H10: Service quality dimensions will differ according to each customer’s demographics (Age, Gender, Monthly Income, Highest qualification).
H11: Overall Service quality will differ according to each customer’s demographics (Age, Gender, Monthly Income, Highest qualification)
H12: Customer satisfaction will differ according to each customer’s demographics (Age, Gender, Monthly Income, Highest qualification)
H13: Behavioural Intentions will differ according to each customer’s demographics (Age, Gender, Monthly Income, Highest qualification)
3.4 Chapter Summary

Chapter Three identified four conceptual gaps in the literature pertaining to service quality, customer satisfaction, service quality, future behavioural intentions. A theoretical framework and hypothetical model was developed, and 13 testable hypotheses were stated.