CHAPTER 2: REVIEW OF LITERATURE

2.1 Introduction

No researcher can do justice with the research problem at hand unless one is having proper understanding of all its related aspects. This requires detailed study of available literature and deciding the framework of the research project to be undertaken.

Academicians, Bank professionals and researchers have carried out a number of studies on Retail Banking and various articles have been published over the time. To take up the study in this area of Customer Satisfaction & Loyalty in Retail Banking the researcher has scanned the available literature and would concentrate here on the important studies and publications in this field.

Some of the objectives of the literature review for this research are to ensure:

1. No important variable should be left.
2. To optimally use the time by using the help of studies in the existing literature.
3. Reliability and Authentication of the findings are enhanced.

2.2 Literature Survey

The review of extant literature is as follows

Parasuraman et al., (1985) they worked on a conceptual model of service quality and its implication for future research. In their study customer satisfaction can thus be based not only on the judgment of customers towards the reliability of the delivered service but also on customers’ experiences with the service delivery process. They further viewed that services are intangible since they are performances and experiences rather than objects that can be precisely manufactured. Services are heterogeneous, that is, their performance often varies from producer to producer, customer to customer, and day to day. More importantly, production and consumption of services are inseparable. Unlike goods that can
be engineered at a manufacturing plant and delivered intact to the customer, quality in services often occurs during service delivery, which is the interaction between a customer and a service provider. Given the differences between services and goods as previously mentioned, quality of service is more difficult for customers to evaluate than quality of goods. Customers evaluate service quality not only on the outcome of the service but also on the process of service delivery, and from how well a service provider actually performs, given their expectations of service performance.

Kassem (1989) has opined that service companies can ill afford to neglect customer service quality issues. In the past, quality was the prerogative of manufacturing sector. However, in the modern day fiercely competitive service sector, quality of services has become as important (if not more) as quality of goods.

Binks et al., (1989) have pointed out that banks are not trying to differentiate their products/services while targeting small business sector. They can’t afford to do so in future as the markets are becoming more and more heterogeneous. The authors have strongly recommended that mass marketing must pave way to nice and customized marketing. They have revealed that Indian customers have lot of resentment regarding more time taken by banks in rendering services at counters. The studies have strongly recommended establishing standard timings for various banking services which, must be abided by the banks.

Berry et al., (1990) are of the view that the sole judge of service quality is the customer and to get a positive feedback from him; the service companies should implement the five imperatives of service quality viz. Reliability, Assurance, Tangibles, Empathy and Responsiveness in their services. The authors have advocated knowing the expectations of the customers on the said fronts and further measuring their actual perception. It becomes imperative for service companies to improve themselves on whichever front expectations of the customers outscores their perception.

Reichheld and Sasser (1990) have suggested “Zero Defection of Profitable Customers“ as an ideal approach to attain higher profitability in service sector. Their assertion is based on the fact that it is less costly and hence more profitable for the service firms to retain existing profitable customers than to attract new customers. The profitable customers not only add to the profits of the companies but also bring new customers in their kitty by spreading positive word of mouth.
Narayana and Brahmanandan (1990) have opined that reputation, complaint and suggestion system and staff behaviour are critical elements which customers take into consideration while assessing a bank.

The authors have advocated practicing following mantras for attaining success in banking industry:

- Enhancing credibility in the eyes of the customers by being reliable.
- Motivating dissatisfied customers to lodge complaint and resolving the same with in minimum possible time period.
- Making staff especially front office people more responsive to customer needs.

Leonard (1991) has opined that investment in employees in banking sector leads to better service quality, which in turn leads to better customer retention. This assertion is based in the fact that employees of the banks are inseparable to customers. A direct interaction between them demands that employees are possessing adequate skills to interact with customers. Such skills add to the service quality and go a long way in preventing customers’ churn.

Pyanne and Ballantyne (1991) have observed that satisfied banking customers initially become friends of the bank, then they become supporters and finally advocates. Thus, the starting point of any relationship marketing endeavour of any bank should be to leave no stone unturned in satisfying customers to a desired extent. This, in turn, is possible if and only if the bank is keeping a ‘service quality’ focus.

Rust and Zoharik (1993) have developed a mathematical model for assessing the value that any bank could attach to different elements of customer satisfaction. They have suggested that banks may adopt their model to get the best result of their endeavour leading to customer satisfaction.

Keavency (1995) has noticed that factors such as core service failure, service encounter failure and inappropriate pricing as most important factors contributing to ‘Customer Switch’ in banking industry. The author has recommended following ways to avoid customer churn:

- Designing the service in the right earnest.
- Ensuring that employees stick to the designed service while interacting with customers.
- Involving customers while setting the price in banking industry so that the same may be customer centric.
Herbig et al., (1996) have found that service quality in banks is better in developed countries in comparison to developing and under-developed countries. The authors are of the view that banks in underdeveloped and developing countries are still undermining the importance of service quality in retaining customers on a sustained basis. This may not, however, continue for a long period as customers in such countries have started becoming more demanding on account of intensifying competition in the banking industry of these countries.

Buttle (1996) has viewed that since its launch in 1985, SERVQUAL has become a widely adopted technique for measuring service quality. However, there is a need to deliberate upon the ‘expectations’ aspect of the model as the same is reflected in perception itself. The author has opined that low perception score itself conveys high customer expectations while high perception score signify that expectations are met to a desired extent. Moreover, expectations of modern day customers are always sky-high and comparing it with perception does not make too much of a sense.

Yavas et al., (1997) in their study have revealed a positive relationship between customers’ satisfaction through service quality and their long term commitment to the bank. Further, the relationship between service quality and complaint behaviour of the customers, was found to be negative. Better the quality, lower will be the number of complaints received from the customers and vice-versa.

Sarkar and Das (1997) have compared the productivity of public, private and foreign banks operating in Indian and have observed that public sector banks are lagging way behind the other banks on this front. The prominent reasons behind poor performance of public sector banks have been found to be:

- Overstaffing.
- Perusal of social banking.
- Undue interference of Government in their working.

Storbacka et al., (1994) had worked on Managing Customer Relationships for Profit: The Dynamics of Relationship Quality. They observed customer-relationship economic issues, more specifically the link between service quality and profitability from a relationship marketing and management perspective. In this perspective the task of marketing is not only to establish customer relationships, but also to maintain and enhance them in order to improve customer profitability. Customer relationship economics and customer profitability. The said linkages are the links between:
• Service quality and customer satisfaction.
• Customer satisfaction and relationship strength.
• Relationship strength and relationship longitivity; and
• Relationship longitivity and profitability.

Jones and Sasser (1995) observed in their own analysis of the Xerox study *The only truly loyal customers are totally satisfied customers*. Hence, the Xerox study shed new light on what had previously been relatively unexplored territory: the link between customer satisfaction and customer loyalty. Yet, in 1991 the Xerox Corporation made a surprising – and disquieting – discovery. It was found that “satisfied” customers were not behaving the way they were expected: they were not coming back to Xerox to repurchase. “Merely satisfying customers, who have the freedom to make choices, is not enough to make them loyal,” customers have been thought of as less price sensitive, less influenced by competitors, buying additional products and/or services and staying loyal longer.

Levesque and McDougall (1996) had worked on Determinants of customer satisfaction in retail banking they had pointed out that customer satisfaction and retention are critical for retail banks, and investigates the major determinants of customer satisfaction and future intentions in the retail bank sector. Identified the determinants which include service quality dimensions (e.g. getting it right the first time), service features (e.g. competitive interest rates), service problems, service recovery and products used. The authors also find, in particular, that service problems and the bank’s service recovery ability have a major impact on customer satisfaction and intentions to switch.

Seal (1998) has asserted that marketing endeavors of banking players should be directed towards maximization of trust amongst all stakeholders. He further advocated for pursuance of ‘System delivery Approach’ of marketing.

Sarkar et al., (1998) have observed that foreign banks operating in India are more productive followed by Indian private and public sector banks. One of the prominent reasons behind such a difference is that foreign banks, to a greater extent and Indian private banks, to a lesser extent have confined their operations to metropolitan and other big and lucrative places.
Bloemer et al., (1998) they had worked on Investigating drivers of bank loyalty: the complex relationship between image, service quality and satisfaction. This article unfolds First of all a brief outline of the construct of loyalty. Next, differentiate conceptually between service quality and satisfaction as determinants of customer loyalty. Subsequently, introduce the construct of image and focus on the relationship between image, satisfaction, service quality and loyalty by formulating a set of formal hypotheses. After dealing with the conceptual issues, the results of an empirical study that was undertaken to test our research hypotheses for the setting of retail banking. In conclusion, they address the theoretical as well as the managerial implications of findings on the relationship between image, service quality, satisfaction and loyalty. This article investigates how image, perceived service quality and satisfaction determine loyalty in a retail bank setting at the global construct level, as well as the level of construct dimensions.

Drake et al., (1998) they worked on Barclays Life customer satisfaction and loyalty tracking survey: a demonstration of customer loyalty research in practice. This paper outlines the development by Barclays Life of a tracking survey to collect information concerning customers’ feelings of satisfaction and loyalty. It describes the determinants of satisfaction amongst customers and the importance of each of these elements in determining loyalty. Initial qualitative research was undertaken to allow the company to develop a frame of reference concerning the elements of service which customers considered important. These initial findings were used in later quantitative studies to establish the relative importance of the different elements, with a view to understanding what was determining customer loyalty. The research culminated in the development of a tracking survey instrument, now used by the company to monitor customer satisfaction and loyalty levels across time and customer groups.

Nataranjan and Jahera (1999) have found the Indian customers becoming more demanding for service quality since mid 1990s. This is on account of the fact that Indian banking sector was opened up by this time and it suddenly led to enhanced choices for Indian customers.

Verma and Verma (1999) have evaluated the profitability of SBI group, nationalized banks and foreign banks on various parameters and concluded that profitability of public sector is low on account of the fact that they are bound to take banking to rural and less developed areas. This is, however, not the case
with foreign banks. Hence, profitability is not the best of the criteria to measure the real performance of the banks operating on Indian soil.

Das (1999) has observed a substantial increase in the non-interest income of commercial banks of India in the post-reform period. This is an indication of banks’ starting offering lucrative products to Indian customers and them, in turn, finding these worth purchasing.

Russell and Russell (1999) worked on Relationship marketing in private banking in South Africa. This study establish which criteria people use in the selection of a private bank. It aimed to establish whether relationship marketing was an appropriate framework within the private banking environment. Price prevails as the most important criteria in the selection of a private bank. This is moderated by trust, service quality and the bank being available at a time of crisis. The results show that relationships are important criteria in the selection of a private bank. It also shows that the Beatty et al. (1996) model, originally developed for the retail industry, can be applied to the private banking environment. Relationship marketing is working well in private banks because this study shows that clients are more likely to be retained by the bank when they have a personal banker or consultant. Consistency of the bank service, and trust the client has in the bank, need to be enhanced to ensure the relationship develops to a level where there is friendship and confidence.

Meuter et al., (2000) have observed that factors contributing to customers’ satisfaction include time saving devices and behavior of front line employees. Further, technology failures and poor service design are dissatisfiers.

Parsuraman (2000) has concluded that conventional marketing will merely become a ticket to enter in the competitive service industry. To stay and prosper, the service providers would require a genuine commitment to serve customers well. This demands a through change in their existing outlook. They need to come out with everything that can enhance the satisfaction level of their customers.

Mehta et al., (2000) have observed that customers demand value for the money they are spending to avail services. They can get such a value provided they get better services at the same prices or same services at the lower prices. The authors have highlighted the importance of bringing in quality in the services.
Srivadas and Baker (2000) have found a high degree of positive correlation between service equality and satisfaction level of the customers. This is true in case of services ranging from banking to tourism and aviation and so forth. The service providers can ill-afford to ignore service quality any longer.

Sharma and Patterson (2000) had proved Satisfaction has a significant impact on customer loyalty and as a direct antecedent; leads to commitment in business relationships thus greatly influencing customer repurchase intention (Morgan and Hunt 1994). Indeed, the impact of satisfaction on commitment and retention varies in relation to the industry, product or service, environment, etc. Indeed, if the firm is able to manage the customer switching costs, it can still retain the customer even though the satisfaction may be lower. The longer the relationship, the more the two parties gain experience and learn to trust each other (Dwyer et al., 1987).

Consequently, they may gradually increase their commitment through investments in products, processes, or people dedicated to that particular relationship. Social exchange theory attempts to account for the development, growth and even dissolution of social as well as business relationships. In other words, people (or businesses) evaluate their reward (cost) ratio when deciding whether or not to maintain a relationship. Rewards and costs have been defined in terms of interpersonal (e.g. liking, familiarity, influence), personal (gratification linked to self esteem, ego, personality) and situation factors (aspects of the psychological environment such as a relationship formed to accomplish some task).

Indeed, social capital has been conceptualized in many different ways (for example Coleman 1994; Serageldin, 1999). Putman (2000) defines it as a representation of the norms of reciprocity and trustworthiness that arise from social relations, while the Organization for Economic Co-operation and Development [OECD] (2001, p. 23) perceives social capital as “the resources gained through social ties, membership of networks and sharing of norms”. Therefore, informal networks of social support, including relatives, friends and other extra household connections such as a supportive community, have value. These networks constitute a locus of access to resources; which in turn determine socio-economic outcomes.

Bisht (2001) have noted that major reasons for poor profitability of Indian public sector banks are:
- Mismanagement
- Liquidity and poor credit policies.
- Increased lending to priority sectors.
- Mounting agricultural overdue.

Ganeshan (2001) has opined that major determinants of public sector banks’ profitability in India are: interest cost, interest income, deposits per branch, credit to total assets, proportion of priority sector advances and interest income loss.

Syzmanski and Henard (2001) in his work on Customer Satisfaction: A Meta-Analysis of the Empirical Evidence. In their meta analysis studies not found a single study, where satisfaction would have a negative effect on loyalty. When testing the effects of satisfaction, we have in addition to the dynamic complexity (mediation) also taken into account the detail complexity (industry variable). Satisfaction could also influence loyalty in a context dependent way. One of the key contextual factors could be the interdependence between satisfaction with a specific provider and satisfaction with the marketplace in general. This link could be sector specific, could depend on the similarity between providers, and also how customers perceive the sector in general. The variable satisfaction has been normally found to have either a positive or no effect on loyalty and therefore managers do not risk decreasing loyalty with their intentions to increase it. However, running these marketing activities is costly both in terms of managers’ attention and resources deployed.

Jamal and Naser (2002) they worked on Customer satisfaction and retail banking: an assessment of some of the key antecedents of customer satisfaction in retail banking they explained how Understanding of the antecedents to and outcomes of customer satisfaction is a critical issue for both academics and bank marketers. Previous research has identified service quality, expectations, disconfirmation, performance, desires, affect and equity as important antecedents of customer satisfaction. The impact of service quality dimensions and customer expertise on satisfaction.

Mohan Ram (2002) has observed that public sector banks of India have woken up to the competition and are catching up the private and foreign banks. The author has witnessed significant positive change in their working since the advent of the competition. The ultimate beneficiary of this change is the enormous customer base these banks are having.
Wong and Sohal (2003), meanwhile, have established high degree of positive correlation between service quality and loyalty of the customers. The authors have observed that good quality services leads to higher satisfaction of the customers which, in turn make them loyal to the service organisation. Such customers may stand for the service provider at the time of adversity.

Berry (2003) has come to the conclusion that when customers fail to judge a company’s offerings, they start scrutinizing people, facilities and processes as an evidence of service quality. Thus, these demand equal attention of the service companies. These days, when there is little to differentiate one’s offering, investment in facilities and processes may emerge as an important differentiation plank.

Hohwarter et al., (2003) have noticed employees of banks holding low social efficacy beliefs to be more productive than those holding high social efficacy beliefs. The authors have opined that social efficacy is something that banks can ill-afford to ignore. However, keeping in mind its adverse impact on productivity, orientation towards it should be permitted only to a desired extent. There is a need to keep the same in mind while recruiting and selecting banking employees.

Huseyin (2003) has found that most of the Turkish Banks have failed miserably in meeting quality expectations of their customers. This has lead to liquidation of several banks in the country.

Haubrich (2004) has observed that most of the American banks have started approaching remote areas to enhance their reach. The best way to attain success in these newer markets is through employing area specific differentiation planks. People living in suburbs may value the things differently to those living in city-centre.

Sawhney et al., (2004) are of the view that key to success in services involves redefining markets in terms of customer activities and outcomes and their expectations of service quality.

Jain and Gupta (2004) have viewed that little is known about measurements of service quality perception in India and there is a need to have a thorough debate before employing any scale (measuring service quality) developed in foreign countries. Such scales may not prove valid in Indian environment.
Shanmugham and Das (2004) observed that State Bank and its associates outperformed other nationalized banks on productivity front during their study period ranging between 1992-99.

Veneties and Ghauri (2004) have found that service quality contributes very strongly in maintaining long term relation with customers. Further, it has a positive effect on customers’ intention to stay with the service provider. In the modern times, when retaining customers is far more cost effective and beneficial than attracting new customers, imparting quality in services may work wonders for the service providers.

Sathya (2005) has observed that Indian banks in private sector have performed better than public banks on productivity front. However, as the size of private banks operating in India will increase in future, there are chances that their productivity may also come down a bit.

McCain et al., (2005) are of the opinion that the banks in America have focused more on technological quality rather than functional quality. This policy may however backfire as studies have proved beyond doubt that customers value functional quality more in comparison to technical quality. The authors have strongly recommended that functional quality needs at least the same, if not greater attention of the banks vis-à-vis technical quality.

Nakan and Weintraub (2005) have observed that privatization of some public banks in Brazil has resulted in improving their productivity. Such banks have come out of the shackles of Government control and on account of less bureaucratic hurdles; they are spreading their wings in right direction.

Zhilin (2004) worked on customer perceived value, satisfaction, and loyalty: The role of switching cost had mentioned in a competitive setting, such as the Internet market, where competition may be only one click away, has the potential of switching costs as an exit barrier and a binding ingredient of customer loyalty become altered? The moderating effects of switching costs on the association of customer loyalty and customer satisfaction and perceived value are significant only when the level of customer satisfaction or perceived value is above average. In light of the major findings, the article sets forth strategic implications for customer loyalty in the setting of electronic commerce.

Beerli et al., (2004) had written an article on a model of customer loyalty in the retail banking market. On the basis of empirical research carried out in the retail banking market, they proposed a structural
equations model enabling us to reach the conclusions that satisfaction together with personal switching costs are antecedents leading directly to customer loyalty, with the former exerting the greatest influence; and perceived quality is a consequence of satisfaction.

Ndubisi and Wah (2005) had worked on factorial and discriminant analyses of the underpinnings of relationship marketing and customer satisfaction. The results show that five key dimensions, namely: competence, communication, conflict handling, trust, and relationship quality, discriminate between customers in terms of perceived relationship quality and customer satisfaction. Moreover, overall bank-customer relationship quality discriminates between satisfied customers and those who are not. This research has succeeded in identifying a list of dimensions that underpin relationship marketing and also in identifying the RM underpinnings that best discriminate between customers that perceive a high quality bank-customer relationship and those that don’t. It has also identified the factors that best discriminate between customers who are satisfied with the banks’ services and those who are not. It also provides guidance to researchers and practitioners concerning the relational factors and organizational processes that may facilitate quality bank-customer relations and customer satisfaction, as purposed from inception. Based on the data furnished by bank customers in Malaysia, and the subsequent analysis of the data, some important findings were made.

The results from the factor analyses show that a parsimonious set of dimensions was developed to discriminate among those customers who perceive a good quality relationship with their bank and those that feel otherwise, as well as those that are very satisfied with their bank and those that are not. The stepwise discriminant analysis shows that five key dimensions (competence, communication, conflict handling, trust and relationship quality) as the parsimonious set with discriminating power to distinguish between the high and low levels of perceived relationship quality. Six dimensions including the five RM underpinnings (trust, communication, commitment, competence, conflict handling) and relationship quality discriminate between satisfied customers and those who are not.

Zoe and Dimitriades (2006) they worked on Customer satisfaction, loyalty and commitment in service organizations. Customer satisfaction was not interpreted as a conceptually distinct construct from customer loyalty; a conceptual overlap also emerged between attitudinal loyalty and loyal behavioral actions such as word of mouth; whereas customer commitment was highly positively associated with loyalty (and satisfaction), according to expectations. Hierarchical regression analysis was used to investigate potential moderating effects of gender and service setting on the satisfaction-commitment
and commitment-loyalty relationships. Although significant differences were identified, both gender and service setting did not moderate the relationship between satisfaction and commitment and between commitment and loyalty in the sample studied.

Duffy et al., (2006) they worked on banking customers varied reactions to service recovery strategies. The findings show no significant difference in recovery strategies or satisfaction by customer age, gender, or tenure with bank. However, the degree of customer satisfaction was strongly influenced by the type of recovery strategy used by the bank. The results indicate that recovery efforts are best directed toward empathic listening and fixing the problem rather than apologizing or making atonement. This study provides an empirical test of the relationship between service recovery strategies and satisfaction and types of banking customers. Long-term customers do not appear to experience service failures, or service recovery any differently than other customers. Age, gender and time with the company are not linked with satisfaction. However, by introducing correspondence analysis to the study of service recovery, we have been able to determine that certain types of recovery strategies – listening and fixing the problem – add value to the bank’s service recovery encounter and that apologies and compensation do not increase satisfaction. Merely increasing service recovery efforts does not guarantee customer satisfaction. In other words, introducing “more” recovery strategies is not the way to a “better “ recovery system. Implementing non-value-added strategies, that do not enhance consumer satisfaction, is a waste of employee time and financial resources. However, selective use of recovery strategies leads to efficient and effective enhancement of customer satisfaction following a service failure. They have viewed that degree of customer satisfaction is strongly influenced by type of recovery strategy used by the bank. Recovery efforts are best directed towards carefully listening and identifying the problem rather than apologizing.

Frei (2006) has emphasized that delivering quality services regularly at sustainable cost, will certainly help the service providers to carry their operations successfully. This may also prove to be a potent source of sustainable competitive advantage for them.

Nalini (2006) has opined that entry of new private banks in Indian banking industry has lead to a higher utilization of technology, improved products and an enhanced urgency in bringing quality in the services.

This research found a positive relationship between the quality of automated service offered by a particular bank and the level of customer satisfaction with that bank. However, in relation to the impact of automated service quality on bank financial performance, the results did not confirm what the literature had predicted (Moutinho and Smith 2000) but never investigated. No direct relationship between automated service quality dimensions and financial performance was found.

The finding of a positive direct relationship between customer satisfaction and financial performance were consistent with the literature (Wiele et al., 2002). The results reported here suggest that customer satisfaction is also a mediating mechanism, through which automated service quality dimensions operate with respect to their impact on bank financial performance. Thus, this study adds to the current body of knowledge that customer satisfaction plays very important part in understanding financial performance in a banking automated service context.

Dash (2006) worked on Measuring Customer Satisfaction in The Banking Industry. He has summarized that the working of the customer's mind is a mystery which is difficult to solve and understanding the nuances of what customer satisfaction is, a challenging task. His exercise in the context of the banking industry gives us an insight into the parameters of customer satisfaction and their measurement. The vital information will help us to study how satisfaction amongst the customers and customer loyalty in the long run is an integral part of any business. we can recognize where we need to make changes to create improvements and determine if these changes, after implemented, have led to increased customer satisfaction. "If you cannot measure it, you cannot improve it."

Tahir and Baker (2007) have observed that customers have poor perception about commercial banking industry in Malaysia. The banks have failed to meet their expectations on all the dimensions of service equality. Further, the banks do not have a genuine concern to solve the problems of the customers rather, they all the time remain interested in enhancing their productivity and profitability. They must however realize that enhancing profitability without bringing in desired quality in services is a distant dream.

Mittal and Dhade (2007) have observed that except SBI, all other banks in public sector and old private banks of India are lagging way behind foreign banks on productivity front. There is a high time that the
said banks are waking up to the competition of the foreign banks otherwise; they will soon be finding their existence in the books of history only.

Agarwal (2007) has concluded that productivity of commercial banks in India including nationalized banks has improved substantially in the post reforms period. Advent of competition, perhaps, has been a motivating force for them to change their thinking and working. Indian banks have the potential to be world leaders provided they enjoy the freedom and willingness to grow.

Kaushik and Anjum (2007) have measured the productivity of Indian public sector banks for a period ranging between 1997-2006 using various parameters. The authors have observed that productivity of the selected banks have gone up in the latter half of the study period.

Bhatia and Sharma (2007) have noticed that technology has played an important role in transforming Indian banking industry to the level of world achiever. Further, due to the use of modern technology the public sector banks have succeeded in increasing their business and profit per employee to a marked extent. It has also resulted into reducing the level of GNPA of commercial banks as percentage of advances from 8.8 per cent in 2003 to 2.4 percent in 2007.

Nathani et al., (2007) have noticed significant difference between public and private banks regarding working attitude and performance of their employees. Contrary to their expectations, they found the attitude and performance of employees of public sector banks much better than employees of private banks.

Baumann et al., (2007) they worked on prediction of attitude and behavioural intentions in retail banking. The results indicate that willingness to recommend is best predicted by affective attitude, overall satisfaction and empathy. Short-term behavioral intentions, however, were best predicted by overall satisfaction and responsiveness, while long-term intentions were predicted by overall satisfaction, affective attitude and empathy. The three models explained a substantial amount of the variation in the dependent variables: 71 per cent for willingness to recommend, 43 per cent for short-term intentions and 46 per cent for long-term intentions. In conclusion, the results provide evidence that the SERVQUAL dimensions are a useful tool to predict overall satisfaction and affective attitude. Overall satisfaction and affective attitude, in contrast, were found to be the most powerful predictors of future behavioural intentions.
The five models developed in this study explain large proportions of the dependent variables with good model fits (based on residual analyses). Based on the fact that affective attitude and overall satisfaction have different predictors, and affective attitude and overall satisfaction in return have varying power predicting future behavioural intentions, the results of this study also suggest that affective attitude and overall satisfaction are indeed separate constructs which may be beneficial to include in future studies. Practitioners can use the results of this study to enhance their understanding of which service quality dimensions are associated with overall satisfaction and with affective attitude, should they wish to specifically improve one area based on market research, complaints or declining business.

The results can also assist in parsimonious research to assess service quality, overall satisfaction and affective attitude, and in using those results to predict future behaviour, and/or profile customers who are likely to defect. It appears from the results of this study that the customers who are most likely to defect short-term are those who are dissatisfied and who believe that their bank does not respond to their requests. Those who are likely to defect long-term are dissatisfied, have a negative attitude towards their bank and rate their bank low on empathy. While these predictors should ideally be validated by other research, a sample could be tested in order to profile customers who are intending to leave the bank. This in turn would assist the bank in using those profiles for targeted marketing activities such as direct mail or visits from a financial planner should the volume and potential of the customer suggest that such action is justified.

Walsh et al. (2008) had worked on investigating the customer satisfaction-loyalty Link Research on the relationship between customer satisfaction and customer loyalty has advanced to a stage that requires a more thorough examination of moderator variables. Limited research shows how moderators influence the relationship between customer satisfaction and customer loyalty in a service context; this article aims to present empirical evidence of the conditions in which the satisfaction-loyalty relationship becomes stronger or weaker. The empirical results suggest that not all of the moderators considered influence the satisfaction-loyalty link. Specifically, critical incidents and income are important moderators of the relationship between customer satisfaction and customer loyalty.

Mavri and Ioannou (2008) they investigated the churn behaviour of bank customers in Greek market. They found out that the quality of the offered banking products and services in combination with the bank’s brand name have a positive effect in the decrease of switching behaviour while demographical characteristics, such as gender and educational level have a limited impact. Considering
the findings in the context of customer behaviour, they conclude that a bank needs to develop a CRM strategy in which the intention to clustering clients across their personal characteristics and exclusive attributes will contribute in decrease the rate of retention.

Pirc (2008) worked on determinants, contexts, and measurements of customer loyalty” Pirc (2008) in their dissertation stated that marketing theory has proposed a positive direct effect of satisfaction on loyalty, which however, has not been always empirically supported. In the study indirect effect of satisfaction was hypothesized and found to be mediated through marketplace satisfaction. The study was to found an explanation of why satisfaction does not necessarily lead to loyalty. Even though a negative causal pathway was identified, it is not very unlikely that the total effect of satisfaction would be reversed to negative.

Jamal and Anastasiadou (2009) worked on investigating the effects of service quality dimensions and expertise on loyalty. In their paper they had investigated the effects of individual dimensions of service quality in creating and enhancing customer loyalty via customer satisfaction. They had discovered the direct and indirect effects of customer expertise on customer loyalty. The paper finds that reliability; tangibility and empathy are positively related to negatively relate to loyalty, it positively moderates the link between satisfaction and loyalty.

Evelyre et al., (2009) are of the view that to keep the customers always satisfied the service providers would have to be responsive to the their ever changing expectations. In the modern times, the demand pattern of the customers is changing within no time and their expectations are becoming sky high. Under such a situation, service providers should become extra agile and flexible to comprehend and serve their needs in the best possible manner.

Garga and Sharma (2009) have highlighted the role of ATM in making banking services flexible, convenient and within the reach of customers 24 hours a day. The authors have observed that barring few exceptions, Indian customers’ satisfaction level with ATM is pretty high.

Kumar et al., (2009) have opined that customers’ service should become the work style of every bank employee. They must realize that there is nothing more important to them than serving their customers. This is the way to enhance the satisfaction level of the banking customers and profitability of the banks.
Gopinath (2009) has focused on values, which the new generation of bankers must imbibe; and more importantly they are able to put them into practice.

Sharma et al., (2009) have pointed out that retaining the best customers is a way to sustainable growth. The banks must remain careful about factors, which influence the customers’ bank switching behaviour most. Such factors can easily be identified through periodical customers’ survey.

Singh and Singh (2009) have pointed out that complicated qualifying requirements, tangible collateral, margins etc. of banking in Indian have resulted in keeping a large section of rural poor away from the formal banking sector. They further suggested that Indian commercial banks must improve their profitability, assets quality and capital adequacy to stay competitive at global level.

Pal and Chauhan (2009) have concluded through the use of CAMEL model that foreign banks and new private banks are good performer, public-sector banks moderate performer while old private banks are poor performer. Further, better management is need of the hour for public sector banks.

Sharma (2008 and 2009), highlighted the role of technology and computerization in the growth and development of Indian banks. Their prominent use in last few years has brought Indian banks at par with best in the world. The way Indian banking industry has grown leaps and bounds in last few years has something to do with technological advances in the same.

Kirubaharan (2009) has found HSBC Bank wanting on following counts:

- Providing services to all groups of customers.
- Inadequate branches in India.
- Lack of coverage of Indian market.
- HSBC Bank can improve its image provided it takes care of above factors.

Kumar et al., (2009) while evaluating the relative importance of different dimensions of service quality in the mind of the customers of Indian commercial banks, came to the conclusion that reliability is most sought by them while tangibility has least preference of theirs.

Youl et al., (2009) they worked on Role of satisfaction in an integrative model of brand loyalty First, the research model fits well and out performs other competing models. Second, the results are consistent with the proposed model even though there are cultural differences between Chinese and South Korean
consumers. Finally, the research model empirically establishes the mediating role of satisfaction in the context of brand loyalty formation. A thorough understanding of satisfaction may be crucial to properly comprehend how consumers evaluate retailing service categories when customer orientation and perceived service quality are evaluated quite differently. Thus, marketing practitioners require a more complete understanding of the role of satisfaction under which brand loyalty programs are most effective. Their study thus illustrates the significance of understanding customer satisfaction levels in order to obtain a firm handle on, and to further develop, customer brand loyalty. Many research studies have shown that satisfaction is a key variable influencing customer brand loyalty.

This study confirms these findings and illustrates how customer cognitive evaluations precede emotions and behavior. This study also shows that merely focusing on satisfaction may provide an incomplete picture of brand loyalty formation. Managers trying to understand customer loyalty toward their brands would be well served to research customer perceptions of their brands as well as their evaluations of service quality. More importantly, managers will find that when customers perceive that the firm is customer oriented, they are more likely to be brand loyal to the firm. The effects of the customer orientation of a firm as perceived by their customers on brand loyalty are significant and complex. Thus, it would seem imperative for managers to examine the fundamental reasons affecting customer orientation perceptions of their employees and work on enhancing those areas. It would appear that by understanding the specific behaviors of front line personnel or policies of the firm that impart perceptions of customer orientation in their particular industry, managers will be able to improve brand loyalty.

2.2 Conceptual Framework of Customer Satisfaction

One of the famous comments on satisfaction is from the researcher, Richard L. Oliver (1997): “Everyone knows what satisfaction is, until asked to give a definition. Then, it seems, nobody knows.” Building from previous definition, Oliver offers his own formal definition. Satisfaction is the consumer’s fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provides a pleasurable level of consumption-related fulfillment.

Another definition of satisfaction is that it is a customer’s overall evaluation of the purchase & consumption experience with a product or service or service provider (Johnson and Gustafsson, 2000). One of the evaluation processes of a customer, examining alternative service options
looks at three levels of quality: search quality, experience quality and credence quality. Search qualities are known to customers prior to purchase, while experience qualities are felt after purchase and consumption. Credence quality are those that cannot be appreciated or understood even after use. In most cases, services are associated with experience or credence qualities. Other authors, Parasuram et al. (1991), have indicated that customer satisfaction is a function of the customer’s assessment of service and product quality and price.

There are two main theories in the ways in which customer satisfaction is examined in the literature: the expectancy-disconfirmation theory and comparison–level theory. The expectancy-disconfirmation theory (Oliver 1980) postulates that consumers judge satisfaction with a product by comparing previously held expectations with perceived product performance. Here, customer satisfaction is a function of expectations and disconfirmation, and predictive expectations are used as the standard of comparison. According to the comparison-level paradigm, the key to determining the level of satisfaction with and motivation to remain in a relationship is the concept of comparison levels, of which two standards are employed: the comparison level and the comparison level of alternatives.

Another perspective of customer satisfaction deals with the difference between transaction–specific and cumulative customer satisfaction (Boulding et al., 1993). From a transaction–specific perspective, customer satisfaction is viewed as a post choice evaluative judgment of a specific purchase occasion (Hunt 1977). Cumulative customer satisfaction is an overall evaluation based on the total purchase & consumption experience with goods or service over time (Formell 1992). Cumulative satisfaction is a more fundamental indicator of the firm’s past, current and future performance and it is cumulative satisfaction that motivates a firm’s investment in customer satisfaction.

Zeithaml (1988) noted that since satisfaction customers are more likely to repurchase the service and tell others about it, service providers must carefully design and deliver services that match or exceed customer requirements. According to Mittal and Kamakura (2001), customer satisfaction leads to customer retention and other favorable post-consumption behavior.

A research finding shows the following characteristics in customer behavior when buying services: greater risk perceived when buying services, use of information prior to buying services and price and physical facilities are seen as major indicators of service quality the following generic dimensions used by customers to evaluate service quality-
credibility, security, access, communication, understanding customer, tangibles, reliability, responsiveness, competence, and courtesy.

2.3.1 Customer Satisfaction Measurement

Heskett et al., (1997) notes that leading service companies has tried to quantify customer satisfaction. For example, for several years, Xerox has polled customers regarding product and service satisfaction using a five point scale from 5 (high) to 1 (low). An analysis of customer who gave Xerox 4s and 5s on satisfaction found that the relationship between the scores and actual loyalty differed greatly depending on whether the customer were very satisfied or satisfied. Customers giving Xerox 5s (very satisfied) were six times more likely to repurchase Xerox equipment than those 4s (satisfied).

Surveys are administered to measure customer satisfaction of quality, satisfaction and loyalty. The basic steps in the development of surveys are survey objectives, what information is required, segmentation, sampling and survey methods (Johnson and Gustafsson 2000). Lovelock (1997) also notes that, when customers visit a service factory, their satisfaction will be influenced by such factors as encounters with service personnel, appearance and features of service facilities—both exterior and interior, interaction with self-service equipment, and characteristics and behavior of other customers.

For service delivered by its Authorized Service Stations, Maruti Udyog, one of India’s leading automotive companies conducts a Customer Satisfaction survey focusing on frequency of service, reasons for unsatisfactory performance, recommendations to friends, overall satisfaction levels, and post contact (Maruti, 2002). Jet Airways, one of India’s leading airlines makes it a point to seek feedback regularly from passengers through its service monitors questionnaires (SMQ). Passengers are asked to rate Jet Airways on topics ranging from accessibility at the airport to cabin crew behavior, food and the overall experience of flying Jet Airways. The quality department says that the bulk of complaints pertain to airport services (Lakshman, 2002). Researchers have suggested that satisfaction with specific service attributes should be measured routinely when customer satisfaction and switching behavior are investigated (Rust and Zahorik, 1993).

Those firms which initiate customer surveys frequently collect the wrong information. Typically, customers are polled to calculate “service satisfaction” scores (the percentage of customers rating a service as excellent, good, fair, poor). But this approach provides little usable data about customers’ perceptions of actual service quality and little guidance about improving performance. To understand
customers’ views of service sufficiency, companies must understand their service at a much finer level of detail (Coyne, 1989).

### 2.3.2 Service Quality and Customer Satisfaction

Customer satisfaction is not an end in itself; it’s the means to achieving a number of key business goals. First satisfaction is inextricably linked to customer loyalty and relationship commitment. Second, highly satisfied (delighted) customer spread positive word of mouth and in effect become advertisement for an organization whose service has pleased them, thus lowering the cost of attracting new customers.

A review of the literature suggests that service quality and satisfaction are distinct constructs. The most common explanation of the difference between the two is that perceived service quality is the form of attitude, a long run overall evaluation whereas satisfaction is a transaction specific measure. This distinction is important to managers and researchers alike because service providers need to know whether the objective should be to have consumers who are “satisfied” with their performance or to deliver the maximum level of “perceived” service quality.

Service quality researchers suggested that the proof of service (quality) is in its flawless performance (Berry and Parasuram 1991) a concept akin to the notion of “Zero defects” in manufacturing. Others have noted that breakthrough service managers pursue the goal of 100% defects free service (Heskett et al., 1990). From the customers point of view the most immediate evidence of service occurs in the service encounter is the “moment of truth “when the customer interacts with the firm. Thus one central goal in the pursuit of “Zero defects” in service is 100% flawless performance in service customers.

Zeithamal and Bitner (2000) portray satisfaction as a broader concept arguing that perceived service quality is but one component of customer satisfaction, which also reflects price quality tradeoffs and personal and situational factors. Satisfaction can be defined as an attitude-like judgement following a purchase act or a series of consumer product interactions.

The attitudinal and behavioural consequences of customer satisfaction play a central role in driving long-term customer relationships. Tax et al., (1998b) point out that behavioural intentions measures might not fully reflect the underlying attitudes that contribute to fostering long term relationships. Repurchase intentions, for example can be influenced strongly by structural factors such as switching cost, availability of alternatives of contractual arrangements.”
2.3.3 Product and service satisfaction

In an attribute level approach overall satisfaction is a function of attribute level evaluations. These evaluations may be based on performance and/or disconfirmation at the attribute level and typically capture a significant amount of variations in overall satisfaction. Gradial et al., (1994) have indicated that, when making post purchase evaluations and describing consumption outcomes, consumers are almost likely to use attributes than the overall product. Secondly, attribute level analysis provides higher specificity and diagnostic usefulness by enabling us to ask specific questions about antecedents of satisfaction.

Mittal et al., (1999) have studied the relative impact of product and service satisfaction on overall customer satisfaction. This relates to one of the key managerial challenges of how to allocate resources since firms want to manage the product and service aspects of their offerings simultaneously. Their research indicated that service satisfaction initially has a much larger impact toward the manufacturer, but later product satisfaction is more influential in generating intentions toward the service provider and manufacturer.

2.3.4 Economic benefits of customer satisfaction

Brady (2001) points out that a high level of service quality is associated with several key organizational outcomes, including high market share, improved profitability relative to competitors' enhanced customer loyalty, the realization of a competitive price premium and an increased probability of purchase. Zeithaml et al., (1996) and Fornell, (1992) enumerates several key benefits of high customer satisfaction of the firm. In general, high customer satisfaction should indicate increased loyalty for current customers, reduced price elasticities; insulation of current customers from competitive efforts, lower costs of future transactions, reduced failure costs, lower costs of attracting new customers, and an enhanced reputation for the firm.

Although there are many compelling reasons to conclude that higher customer satisfaction leads to higher profitability, it is nevertheless, not always the case. At some point there must be diminishing returns to increasing customer satisfaction and it is not clear that high customer satisfaction and high market share are always compatible. Fornell (1992) discuss possibility of a negative relationship between customer satisfaction and market share. Research findings from Anderson et al (1994) indicate...
that economic reforms from improving customer satisfaction arc not immediately realized. The authors note that because efforts to increase current customer satisfaction primarily affect future purchasing behaviour, the greater portion of any economic returns from improving customer satisfaction also will be realized in subsequent periods. This implies that a long-run perspective is necessary for evaluating the effectiveness of efforts to improve quality and customer satisfaction.

2.3.5 Satisfaction - Profit Chain (Linking service actions and profits)

It has been suggested that customer perceived quality drives profits in service businesses (Albrecht and Zemke 1986; Gronroos 1990; Lovelock 1992; Normann 1984; Zemke 1989). Over the past two decades, many companies have moved sequentially from focusing on quality to focusing on customer satisfaction, and then to loyalty, and then to relationship management as the panacea of the day. These are all important issues but it is an error to try to address them independently, without regard to their place in a system. They actually form a chain of causes and effects that build on one another (Johnson and Gustafsson 2000).

Heskett et al., (1997) while looking at various organizations, identified a factor more often associated with high profits and rapid growth - customer loyalty. The authors note that “The service profit chain focuses management thinking on two very important ideas: (1) do what necessary to detect the needs and ensure the satisfaction and loyalty of targeted customer and (2) achieve this, in most cases, by giving employee the latitude and support necessary to deliver high value to desired, customers”.

Dawes et al., (1992) studied a range of management consulting services in Australia and concluded that existing clients represented the most probable (and most profitable) source of new business. Other authors, Woodside et al., (1992) used in-depth interviews to develop a relationship model for financial services and found that a significant relationship existed between service quality performance and an attitude towards recommending.

Reichheld and Sasser (1990) indicate that customer loyalty is a more important determinant of profit than market share in a wide variety of industries. They estimated, for example, that a five percentage point increase in customer loyalty could produce profit increases from 25 per cent to 85 per cent. As a
result, they concluded that quality of market share, measured in terms of customer loyalty, deserves as much attention as quantity of share.

Retention is the continuing, active relationship with a customer that yields a stream of revenue. The costs of serving existing customer's decline as expectations are established and customers learn the service delivery process. Roth and Velde (1991) and Roth (1993) demonstrate that the competitiveness of a service firm could be understood by examining its operations strategy. A service operations strategy considers both the management processes within the firm across a broad range of practice areas and the outcomes of the processes beyond business performance, such as operating performance, productivity, service quality, customer satisfaction and customer retention (Goth and Jackson, 1995).

In their research, Zeithamal and Bitner (2000) point out the research questions that are relevant in exploring the relationship between service actions and profits:

- Service quality and profitability: the direct relationship
- Offensive effects of service quality
- Defensive effects of service quality
- Perceptions of service quality, behavioural intentions, and profits
- The effect of distinguishing among tiers of customers
- Identifying the key drivers of service quality, customer retention, and profits

Rust et al (1995) developed the concept of return on Service Quality (ROQ) model that looks at investment in service as a chain of effects with the following characteristics:

- A service improvement effort will produce an increased level of customer satisfaction at the process or attribute level.
- Increased customer satisfaction at the process or attribute level will lead to increased overall customer satisfaction.
- Higher overall service quality or customer satisfaction behavioural intentions such as greater repurchase intention usage will lead to increased and intention to increase usage.
- Increased behavioural intentions will lead to behavioural impact, including repurchase or customer retention, positive word of mouth and increased usage.
• Behavioural effects will then lead to improved profitability and other financial outcomes.

### 2.3.6 Value of a Customer

Creating and maintaining customer loyalty has become a strategic mandate in today's service markets. Recent research suggests that customers differ in their value to a firm and therefore customer retention and loyalty-building efforts should not necessarily be targeted to all customers of a firm. The value a customer can have to a firm has been frequently discussed in business literature (e.g. Blattberg and Deighton 1991;1996;Gruen 1995; Jackson 1992; Peters l985; Reichheld1996 ;Reichheld and sasser 1990; Zeithaml and Bitner,1996).

The research on the value of loyal customers to businesses over the past decade has generally focused on the direct impact of loyal customers on the firm. That is, the major focus has been on the direct revenue steam resulting from retaining a customer and keeping him/her satisfied (e.g. Blattberg and Deighton 1996;Reichheld 1993, 1996; Schlesinger and Heskett l99l). When the lifetime value of a customer concept was introduced in the loyalty literature, most firms' accounting systems were not designed to capture the full value of a loyal customer (Dwyer 1989; Jackson l991;Reichheld and Sasser 1990). Most service businesses still do not seem to have appropriate systems and processes in place to adequately measure the value of a customer to a firm (Dwyer 1997 ; Reichheld 1996).

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2.4 Conceptual Framework of Customer Relationships

Liljander and Roos (2002) suggest that relationships range from spurious to true, based on the level of trust, affective commitment and perceived relationship benefits. This discussion is derived from Jacoby and Chestnut’s (1978) and Bloemer and Kasper’s (1995) definitions of loyalty as ranging from spurious to true, also demonstrating the closeness of the concepts “relationship” and “loyalty”.

According to Liljander and Roos (2002), customers in both spurious and true relationships continue to buy the service and may appear equally satisfied. The difference lies in their degree of commitment to the service provider, defined as the number of service providers in use and the affective commitment of the customer (Liljander and Roos 2002).

Affective commitment indicates a strong preference for the provider and perceived service superiority compared to other alternatives and is based on perceived benefits and trust (Liljander and Roos 2002). True and spurious relationships are defined in the following way:

“A true customer-service relationship is: (1) the biased (i.e. non-random), (2) behavioural response (i.e. purchase, word-of-mouth, information sharing and other positive behaviours), (3) expressed over time, (4) by some decision-making unit, (5) with respect to one service provider out of a set of such providers, which (6) is a function of psychological (cognitive and affective) processes, including the presence of trust, relationship benefits and the absence of negative bonds, resulting in service-provider commitment.” (Liljander and Roos 2002).

“A spurious customer relationship is: (1) the biased (i.e. non-random), (2) behavioural response (i.e. purchase), (3) expressed over time, (4) by some decision-making unit, (5) with respect to one or more alternative service providers out of a set of such providers, which (6) is a function of inertia, trust deficit, weak or absent relationship benefits and/or the existence of negative bonds.” (Liljander and Roos 2002).

The definitions of both true and spurious relationships include a “behavioural response”, implying that a relationship’s existence is, according to this view, defined by customer behaviour. If customer behaviour determines whether or not a relationship exists, it follows that some kind of behavioural loyalty is a
necessary prerequisite for it to exist. In a banking setting, the physical sign of such a relationship is the existence of a contract (Liljander and Strandvik 1995).

Behavioral loyalty can take different forms, depending e.g. on how many other providers the customer uses, i.e. the exclusivity of the relationship. The amount of services in use on the other hand determines the scope of the relationship. In addition to these behavioural aspects, the customer’s attitudes determine the depth of the relationship, i.e. whether the relationship is true or spurious.

Based on the above discussion, the following definition of a relationship in a contact-based context, incorporating customer loyalty, is proposed.

“A minimum requirement for a relationship to exist is that the customer is in some way behaviorally engaged with the service provider, which is manifested by the existence of a contract concerning at least one core service. The exclusivity of the relationship is determined by how many competing service providers the customer uses, whereas the scope of the relationship is determined by the range of products or services in use. The depth of a relationship is determined by the customer’s attitudes towards the service provider and the relationship.”
2.4.1 Customer Relationship Benefits

Lovelock (2001) examines what benefits customer see in being in an extended relationship with a service firm. The research indicated that most of the benefits that customers derived from relationships could be grouped into three. Clusters - confidence benefits, social benefits and special treatment benefits. Reichheld and Aspinall (1993) have indicated that the things that satisfy customer may not always be the same things that engender loyalty to a service organization providing them.

Vandermenve (2000) indicates that revenues are enhanced not by selling more core items but also by increasing the amount of spending customers do with the company by focusing on longevity of spending (over a customer’s lifetime), depth of spending (greater share of wallet), breadth of spending (new sources of value or add-ons) and diversity of spending (stretching into new areas of customers, lives). Gronroos (1995) points out that service firms have always been oriented towards relationships. The very nature of service encounters is contact with customers, providing the ideal platform for the formation of a relationship.

A core construct in the relationship marketing literature is the nature of promises. Promises kept are far more important than promises made (Berry 1995). In fact, service relationships are achieved through 'the mutual exchange and fulfilment of promises, (Gronroos, 1990). Three essential activities are required to fulfil promises: making realistic promises (external marketing), "enabling employees and service systems to deliver on promises made (internal marketing), and keeping those promises during delivery (interactive marketing) (Bitner 1995).

Berry and Parasuraman (1991) classify relationships on three different levels depending on the types of bonds used to develop customer Loyalty. Level one employs financial bonds, two utilizes social bonds and three relies on structural bonds. Colgate and Stewart (1998) introduce the relationship approach which „views marketing as an integral activity involving personnel from across the organisation, with emphasis on facilitating, building and maintaining relationships over time”.

In a well managed firm, Lovelock (2001) points out that the corporate brand is not only easily recognized but also has meaning for customers: it stand for a particular way of doing business. An important role for service Marketers is to become 'brand champions; familiar with and responsible for shaping every aspect of the customer’s experience. Cronin and Taylor (1992) high-light the point that, perhaps, high involvement services such as health care or financial services have different services quality definitions
than low involvement services such as fast food or dry cleaning. An analysis of the literature reveals that various authors cover brand-focused companies.

2.5 Conceptual Framework of Customer Loyalty

Loyalty is an old fashioned word that has been used to describe a customers willingness to continue patronizing a firm over long term, purchasing and using its goods and services on a repeated and preferably exclusive basis and voluntarily recommending the firm’s products to friends and associate (Lovelock,2001).Johnson and Gustafson (2000) proposed another definition. “Loyalty is customer’s intention or predisposition to buy and retention is the behavior itself”. The cultivation of customer loyalty is an important, if not the most important, challenge facing most businesses. Indeed, businesses are concerned about not only attracting and satisfying customers, but also developing long-term relationships with them.

Research on customer loyalty in the service industry conducted by the forum corporations shows that only 14% of customers who stop patronizing services businesses do so because they are dissatisfied with the quality of services. More than two-thirds defects because they find service people indifferent or unhelpful (Schlesinger and Heskett 1991).File and Prince(1994) point out that businesses primarily depend on customers for survival and profits in an increasingly competitive market space and retaining loyal customers costs five times less than acquiring new ones. Some specific advantages of customer loyalty and the profitability are repeat customers who are less costly to serve and loyal customers help in enlisting new customers (Das 1999)

Although loyalty is an important issue for all businesses ,it is particularly relevant for service firms for three reasons: Loyalty is greater or more prevalent among services consumers than among goods consumers(Zeithamal 1981);services provide more opportunities for person –to-person interaction which, in turn, often provide opportunities for loyalty to develop (Parasuraman et al,1985;Surprenant and Soloman 1987);and perceived risk is often greater when purchasing services rather than goods(Murray 1991).

Gremler and Brown (1999) note that the influence of loyal customer can reach far beyond their immediate on the company. This impact is an analogous to the ripple caused by a pebble tossed into a still pond. The authors introduce the loyalty ripple effect construct and define it as the influence, both
direct and indirect, customers have on a firm through (1) generating interest in the firm by encouraging new customer patronage or (2) other actions or behaviours that create value for the organisation. They that loyal customer may engage in several behaviours, including word-of-mouth communication that add value to or reduce costs for the firm.

Firms have increased their efforts to retain customers for various reasons, but most often the reasons relate to the customers’ direct value to the company. Loyal customers can lead to increased revenues for the firm (Reichheld, 1993, 1996b Schlesinger and Heskett, 1991) result in predictable sales and profit streams (Aaker, 1992), and these customers are more likely to purchase additional goods and services (Clerk and Payne, 1994; Heskett et al., 1997; Reichheld, 1996a)

Zeithaml and Bitner (1996) suggest customers can contribute to their own satisfaction by their participation in the service delivery process. They contend the contribution loyal customer make to service business can go well beyond creating value for themselves and beyond their financial impact on the firm’s revenues. Finally, Loyal customers may serve as mentors (Zeithaml and Bitner 1996) and, because of their experience with the provider, help other customers understand the explicitly or implicitly stated rules of conduct. As these examples illustrate, the influence of loyal customers can reach far beyond their immediate impact on the company.

Based on the conceptual ideas of Caruana (1999) and Gremler and Brown (1996), service loyalty in this study is defined as:

“The willingness of customer to consistently re-patronize the same service provider/service company, that maybe the first choice among alternatives, thereby complying with actual behavioral outcomes and attaching with favorable attitude and cognition, regardless of any situational influences and marketing efforts made to induce switching behavior.”

However, the service loyalty mentioned here does not imply the definition of 100% loyalty because very few customers will have 100% loyalty toward only a single service provider in reality. Instead, customers usually have two or three choices within any category from which they regularly buy (O’Malley 1998). In addition, the service loyalty defined here excludes the meaning of “membership” in order to avoid “locking-in” customers’ consumption behavior (Barnes 1994). Therefore, the formation of service loyalty in this study must satisfy three conditions (Barnes 1994):
The customer should have strong desire for the service continuously or periodically;

The customer should have freedom to choose their favorite service provider or Service Company;

There should have more than one service provider within the same service Industry.

Several contemporary researchers have acknowledged an evolution of the concept of brand loyalty through time (Alhabeeb 2007; Khan 2009; Kuusik 2007; Dick & Basu 1994; Worthington, Russell-Bennett & Hartel 2009). From the early studies, where loyalty was defined as mere repeated purchase behavior (Jacoby & Kyner 1973; Cunningham 1956; Farley 1964) to the more recent characterization of loyalty as a multi-dimensional concept (Dick & Basu 1994; Oliver 1999; Worthington, Russell- Bennett & Hartel 2009) the evolution has involved various stages and interpretations.

Some researchers have investigated the nature of different levels or dimensions of loyalty, while others have explored the influence of individual factors on loyalty.

Customer loyalty lies at the heart of marketing science. Although loyalty research has a long tradition dating back to almost a hundred years (Copeland 1923), customer loyalty is still a very contemporary research topic. The concept of loyalty derives from the literature of customer behavior (Chegini 2010). As stated before, brand loyalty is a rather complex construct, which has led to numerous definitions (e.g. Fournier 1998; Oliver 1999; Pritchard Havitz, & Howard 1999; Reichheld 2003; Sirgy and Samli 1985; Copeland 1923; Brown 1952). In the context of branding, loyalty is one of the most widely defined words in the marketing lexicon. It is interpreted in different ways and can often be approached with greatly differing definitions by different people (Morgan 1999).

One of the oldest and perhaps the most used definition for loyalty comes from Jacoby and Kyner (1973) who described loyalty as “a biased behavioral response expressed over time by a decision making unit with respect to one or more alternative brands out of a set of brands and being a function of psychological processes”.
Oliver (1999) has developed the definition further by describing loyalty as “a deeply held commitment to re-buy or repatronize a preferred product or service consistently in the future, causing repetitive same brand or same brand-set purchasing, despite situational influences or marketing efforts.”

Reichheld’s (2001) definition emphasizes somewhat different aspects in defining loyalty as the “willingness of someone to make a personal sacrifice or other investment for the strengthening of a relationship.

One of the newest definitions of brand loyalty comes from Chegini (2010) who describes it as “theory and guidance leadership and positive behavior including, repurchase, support and offer to purchase which may control a new potential customer”.

Furthermore, the American Marketing Association defines brand loyalty as “the situation in which a consumer generally buys the same manufacturer originated product or service repeatedly over time rather than buying from multiple suppliers within the category” or “the degree to which a consumer consistently purchases the same brand within a product class” (Moisescu 2006).

In the categorization of brand loyalty today, it would seem that two major approaches predominate. Attitudinal loyalty is often understood as a systematically favorable expression of preference for the brand, or in other words a reflection of the emotional attachment that consumers feel for brands (Morgan 1999; Dick & Basu 1994).

Behavioral loyalty on the other hand typically infers the loyalty status of a given consumer from an observation of repeated purchasing behavior (Morgan 1999; Kahn Kalwani & Morrison 1986). Mere repeat purchasing is not a sufficient indicator of loyalty (Jacob & Kyner 1973; Reichheld 2001) viewing the fact that even unsatisfied customers might don’t always switch brands, which is referred to as inertia (Kuusik 2007). One of the reasons to this is that they feel the alternatives are just as bad as the brand they are using or inertia may also be caused by lack of information about attractive characteristics of the alternative brands (Kuusik 2007).
2.5.1 One-Dimensional Loyalty

There are multiple approaches to customer loyalty. Theories of behavioral loyalty were dominating until 1970 considering loyalty as the share of total purchases (Cunningham 1956; Farley 1964), buying frequency or buying pattern (Tucker 1964; Sheth, 1968) or buying probability (Harary & Lipstein 1962; McConnell 1968; Wernerfelt 1991). These approaches looked at brand loyalty in terms of outcomes (repeat purchase behavior) rather than reasons, until Day (1969) introduced the two-dimensional concept of brand loyalty, which stated that loyalty should be evaluated with both behavioral and attitudinal criteria.

Even though the many early loyalty researchers considered frequent buying as loyalty, modern research shows that mere repeat purchasing is not a sufficient indicator of loyalty (Jacoby & Kyner 1973; Reichheld 2001). The buyer could instead be trapped by inertia, indifference or switching costs, due to circumstances or the company (Reichheld 2003).

Based on different kinds of repeat purchase conduct, Kuusik (2007) suggests that behaviorally loyal consumers can be divided into three sub-segments: forced to be loyal, loyal due to inertia or functionally loyal. Theories that support this division are described in the following sections.

Firstly, consumers can be forced to be loyal when they are made to buy a certain product or a brand even if they do not want to (Kuusik 2007). Customers may have to consume certain products or services for example when the provider has a monopoly over a market or if the consumers’ financial situation is limiting their selection of goods. Interestingly, Grönholdt, Martensen and Kristensen (2000) discovered that companies with a low price strategy had a much higher degree of loyalty among their customers than expected based on their customer satisfaction. On the other hand, companies that had invested heavily on branding had a high level of customer satisfaction but scored a lot lower on customer loyalty. Apart from these alternatives exit barriers created by service providers may also create forced loyalty (Kuusik 2007).

Secondly, behavioral loyalty may also be a result of inertia when the consumer doesn’t switch vendors because of comfort or relatively low importance of the particular product or service (Reichheld 2003). If the choice has low importance, there is no point to spend time and effort on searching for alternatives. The inertia-based behavioral loyalty is in accordance to Oliver’s (1999) approach of cognitive loyalty:
“Cognition can be based on prior or vicarious knowledge or on recent experience-based information. If the transaction is routine, so that satisfaction is not processed (e.g. trash pickup, utility provision), the depth of loyalty is no deeper than mere performance” (Oliver 1999).

Bendapudi and Berry (1997) say that one of the reasons that customers don’t switch brands when they are unsatisfied is that they feel that the alternatives are just as bad as the brand they are using or even worse. Inertia may also be caused by lack of information about attractive characteristics of the brands (Wernerfelt 1991).

A third form of behavioral loyalty is functional loyalty that is based on a consumer’s objective reason to be loyal. Wernerfelt (1991) identifies cost-based brand loyalty where the benefits of using a brand have a positive effect on brand choice. Functional loyalty can be created by functional values such as price, quality, distribution channels, convenience of use, or loyalty programs that give a reason to prefer a certain supplier (Wernerfelt 1991). These kinds of functional values are, though, easily copied by competitive brands (Kuusik 2007). This is why Kuusik (2007) suggests that behavioral loyalty based on functional values isn’t profitable in the long run.

Jones and Sasser (1995) propose that behavioral loyalty can come up in different kinds of behavior. According to them the frequency and amount of purchases can be identified as a consumer’s primary behavior. A consumer’s secondary loyalty behavior consists of customer referrals, endorsements and word of mouth. A third kind of loyalty behavior is a consumer’s intent to repurchase – whether or not the consumer is ready to repurchase the brand in the future. (Jones & Sasser 1995).

2.5.2 Two-Dimensional Loyalty

One-dimensional theories of behavioral loyalty were dominating until 1970 considering loyalty as the function of the share of total purchases (Cunningham 1956; Farley 1964). These approaches looked at brand loyalty in terms of outcomes (repeat purchase behavior) rather than reasons, until Day (1969) introduced the two-dimensional concept of brand loyalty. At the moment many researchers, such as Dick and Basu (1994), state that brand loyalty should be seen as a combination of purchase behavior and attitude. One of the first researchers that used a two-dimensional definition of loyalty was Day (1969), who opines that brand loyalty should be evaluated on the basis of attitudinal as well as behavioral criteria. Furthermore, Traylor (1981) suggested that loyalty has an attitudinal construct and evolved the
proposition further (Traylor 1983) suggesting that brand commitment represents an emotional or psychological attachment to a brand whereas brand loyalty is a behavioral phenomenon.

Although literature offers plenty of definitions of loyalty, there seem to be two basic approaches to the customer loyalty concept (Jacoby & Kyner 1973). These are described as the behavioral approach and the attitude-based approach. Morgan (1999) describes these concepts as follows: “There are those who believe that loyalty is what a customer feels - a reflection of the emotional attachment that consumers feel for brands. For others, loyalty is what a customer does - i.e. nothing more or less than repeated (purchasing) behavior.” The characteristics of a two-dimensional definition of loyalty are shown in Figure 2.1

![Figure 2.1: Elements of a two-dimensional definition of loyalty (Adapted from Khan, 2009)](image)

According to the behavioral approach, customer loyalty is defined as a behavior (Cunningham 1961; Kahn Kalwani & Morrison 1986). Behavioral loyalty is the degree to which a participant purchases a service or a program repeatedly (Park & Kim 2000; Day 1969) and is revealed through purchase and usage behavior (Mascarenhas, Kesavan & Bernacchi 2006). This type of loyalty can be measured with shares of purchase, purchasing frequency and so on (Khan 2009). In this theory it is assumed that the preferences of the consumer are reflected in the consumer’s behavior. Hallowell (1996) states that one of the advantages of the behavioral approach is that it is a relatively objective measurement of customer loyalty. A weakness is, however, that even though the approach makes loyalty measurable, it does not offer an explanation of the existence of loyalty (Hallowell 1996).
The attitude-based approach, on the other hand, defines customer loyalty as an attitude (Copeland 1923; Fournier & Yao 1997). Attitudinal loyalty refers to attaching psychologically to a selected company or brand (Park & Kim 2000; Day 1969) and is often expressed as an ongoing long-term relationship to a brand (Mascarenhas, Kesavan & Bernacchi 2006). The psychological (mostly attitudinal and emotional) factor of loyalty is usually considered and emphasized by contemporary researchers (Jacoby & Kyner 1973; Oliver 1999). According to this approach, a simple description of the actual behavior of the consumer does not serve the purpose, but analyzing and describing the underlying structure of attitudes and preference of the consumer is required, for the concept of loyalty to have an explanatory value in addition to its measurability (Khan, 2009). As tools to measure attitudinal loyalty Khan (2009) suggests measures such as preference, buying intention, supplier prioritization and willingness to recommend. Similarly, Rundle-Thiele and Bennett (2001) propose attitudinal loyalty can be defined as a customer’s attitudes towards the brand and measured with intention to engage in positive word of mouth or repurchase.

These two approaches separate customers as whether behaviorally or emotionally loyal. Behaviorally loyal customers act loyal but have no emotional bond with the brand whereas emotionally loyal customers do. Jones and Sasser call these two kinds of loyalty false or true long-term loyalty (Jones & Sasser 1995). Traylor (1981 & 1983) divides customers to loyal (behavioral) or committed (emotional). According to Reichheld (2003) emotional loyalty is much stronger and longer lasting than behavioral loyalty; it’s a desire to maintain a valued relationship. The relationship becomes so important for the customer that he or she makes maximum efforts to maintain it (Morgan & Hunt 1995). Highly attached customers will continue to use the brand to which they are bonded, recommend the brand to others, and strongly defend these choices to others (Butz & Goodstein 1996).

Baldinger and Rubinson (1996) have divided loyal consumers into different groups according to their levels of behavioral and attitudinal loyalty. The key concept of their behavior/attitude matrix is that a brand’s loyal substance is not just its behaviorally high loyal customers but also those who show loyalty both in their actions and their attitudes.

This framework that is presented in Figure 2.2 shows, that genuinely loyal consumers, the “real loyals” are loyal both in behaviorally and have strong positive attitudes towards the brand. According to Baldinger and Rubinson (1996) a part of the behaviorally loyal consumers that don’t have attitudinal
bonds to the brand are called "vulnerable". The researcher says that the real loyal with attitudinal ties to the brand are more likely to stay loyal to a brand over time than the vulnerable. Furthermore, Baldinger and Rubinson (1996) propose that vulnerable who have highly favorable attitudes toward particular competitive brands are called "prime prospects" to that competing brand. This framework highlights the importance of considering both behavioral and attitudinal aspects while examining a consumer’s loyalty to a brand in the Figure 2.2.

![Figure 2.2: The behavior/attitude matrix](Image)

**Figure 2.2: The behavior/attitude matrix (Adapted from Baldinger and Rubinson 1996)**

### 2.5.3 Three-Dimensional Loyalty

The previous chapter has shown that in both research and practice, loyalty is recognized as attitudinal or behavioral. Some marketers adopt a single dimension whereas others adopt a two-dimensional approach (Rundle-Thiele & Bennett 2001). Even though the traditional two-dimensional views for understanding customer loyalty have been useful to conceptualize and measure brand loyalty, they have also generated inconsistencies and debate in the marketing literature (Worthington, Russell-Bennett & Hartel 2009). Worthington et al. (2009) claim that the behavior attitude approaches are not fully applicable for example to the business-to-business sector or the three core marketing outcomes in a consumer context (recommendation, search and retention). Given these circumstances it can be implied...
that brand loyalty is not a simple one or two-dimensional concept but, in fact, a complex construction involving multiple dimensions.

According to Worthington et al., (2009) argue that all human behavior is a combination of cognitive, emotional and/or behavioral responses. In this tri-dimensional approach, brand loyalty is therefore the combination of a consumer’s thoughts and feelings about a brand that are then expressed as an action (Worthington, Russell-Bennett & Hartel 2009).

This way they divide attitudinal loyalty into a simple two-component structure of cognitive loyalty and emotional or affective loyalty that can be used to develop an understanding of brand loyalty as a whole. When this is included with behavioral loyalty, a tri-dimensional view of brand loyalty can be seen as in Figure 2.3 (Worthington, Russell-Bennett & Hartel 2009).

![Figure 2.3: A tri-dimensional approach to brand loyalty](Adapted from Worthington, Russell-Bennett and Hartel 2009)

As attitudinal loyalty relates to a psychological commitment to a brand, it is worthwhile to take a closer look at the definitions of the two components of attitudinal commitment, cognition and affection.

Worthington et al., (2009) describe cognitive commitment to a brand as the decision to stay with a brand based on the examination of switching costs and the evaluation of the brand’s attributes. Oliver (1999) defines cognitive loyalty as loyalty based on information such as price and features. This interpretation can be expanded by defining cognitive loyalty as a “psychological preference for a brand consisting of positive beliefs and thoughts about purchasing a brand on the next purchase occasion” (Worthington, Russell-Bennett & Hartel 2009).

Modern researches emphasize the psychological element of loyalty, which consist of both attitudinal and emotional loyalty (Jacoby & Kyner 1973; Oliver 1999; Chaudury 1995; Djupe 2000; Reichheld 2003).
These approaches perceive customers as either behaviorally or emotionally loyal. Behaviorally loyal customers act loyal but have no emotional bond with the brand while emotionally loyal customers feel attached to the brand on an emotional level. Jones and Sasser (1995) differentiate these two kinds of loyalty as false or true long-term loyalty. Morgan and Hunt (1995) divide customers into behaviorally loyal or emotionally committed.

Researchers find that emotional loyalty is much stronger and longer lasting than behavioral loyalty; it’s an enduring desire to maintain a valued relationship (Reichheld 2003). The relationship is so important for the customer that they make maximum efforts to maintain it (Morgan & Hunt 1995; Moorman, Zaltman & Deshpande 1992). Customers with high emotional bonds to brand will buy repeatedly the brands products or services, recommend the brand to others, and strongly defend the brand to others insisting that they have chosen the best product or service (Butz & Goodstein 1996). Thus, emotional or affective commitment relates to the positive feelings stimulated by buying or using a brand and the feeling of emotional attachment to a brand (Worthington, Russell-Bennett & Hartel 2009).

Worthington et al., (2009) define emotional loyalty as “affective commitment to a brand consisting of positive feelings about and attachment to purchasing a brand on the next purchase occasion”. Emotional loyalty can therefore be described as the degree of positive feelings triggered by purchasing a brand (Oliver 1999). In their three-dimensional approach to loyalty Worthington et al., (2009) define behavioral loyalty as “the consumer’s tendency to repurchase a brand, revealed through behavior that can be measured and which impacts directly on brand sales”. They state that behavioral loyalty can be explained as a consumer’s buying preference of a particular brand compared to other brands in the same category or as brand allegiance that indicates expenditure on a brand over time.

2.5.4 Four Phases of Loyalty

The tri-dimensional approach to loyalty presented in the previous chapter is closely connected to Oliver’s (1999) conceptual framework of loyalty phases. Nevertheless, it doesn’t have the same approach to attitudes but, instead, follows a two-component structure to attitude, where attitude consist of cognition and emotion (Worthington, Russell-Bennett & Hartel 2009). In contrast, Oliver’s (1999) brand loyalty framework, that is the main focus of this chapter, follows the structural approach to attitudes, which includes intentions as well as cognition and emotion. Originally, Dick and Basu (1994) developed three loyalty phases that led to a deeply held commitment. They presented cognitive,
affective and conative antecedents to explain a consumer’s loyalty toward a brand. Later, Oliver (1997) argued that customer loyalty involves three components, namely, cognitive, affective, and behavioral intentions.

Oliver (1999) further categorized consumer loyalty into four phases and indicated that consumer loyalty is formed in a progressive manner in the order of cognitive loyalty, affective loyalty, conative loyalty, and action (behavioral) loyalty. This developing sequence of consumer behavior implies that attitudinal loyalty leads to behavioral loyalty. He claims a person initially becomes loyal in a cognitive way, then in an affective manner, third in a conative sense and last in a behavioral manner (Oliver 1999).

An outline of each of the loyalty phases is provided in Figure 2.4 and the following sections:

**Cognitive loyalty.** In the first loyalty phase of Oliver’s (1999) framework, the brand’s qualities and characteristics perceivable to the consumer indicate that one brand is more advantageous than preferable its alternatives. This stage is referred to as cognitive loyalty, or loyalty based on brand image. Cognition can be based on previous or secondhand knowledge or on recent experiences about the brand and, at this stage loyalty toward the brand is based merely on this information. This kind of consumer loyalty, however, is only superficial. If the use of the brand in question is a routine and doesn’t stimulate satisfaction, the intensity of the consumer’s loyalty is no more than just performance. If the consumer gets satisfaction from using the brand, it becomes a part of the consumer's experience and begins to take on emotional or affective meanings. (Oliver 1999).

**Affective loyalty.** At the second stage of loyalty according to Oliver (1999), an attachment to or attitude toward the brand has developed based on increasingly satisfying experiences with the brand. The consumer’s commitment to the brand at this phase is described as emotional loyalty and is planted in the consumer's mind as a combination of cognition and affect. While cognition can directly be influenced by new information, affect cannot be changed as easily. However, similar to cognitive loyalty, this kind of brand loyalty is still vulnerable to switching (Oliver, 1999), as research has shown that large percentages of brand defectors claim to have been previously satisfied with their brand (Reichheld, Markey & Hopton 2000). Thus, it would be preferable for marketers if consumers were loyal at a deeper level of commitment (Oliver 1999).

**Conative loyalty.** The next gradual loyalty phase according to Oliver (1999) is the conative stage of behavioral intention. This stage is developed by frequent events of positive emotions toward the brand.
Conation is defined as a commitment or plan to repurchase a specific brand. In accordance with this description conative loyalty might at first been seen as a loyalty state that contains the deeply held commitment to buy the brand. Nevertheless, this intention to repurchase the brand, similarly to any other determination this desire may be an expected but can remain unfulfilled. (Oliver 1999).

**Action loyalty.** At this stage of loyalty the desire and intention in the previous loyalty state has converted into strong eagerness to act. Oliver (1999) proposes that in this state the consumer is prepared to overcome possible obstacles that might prevent him or her from using the product or service in order to attain the preferred brand. In this phase action is perceived as a necessary result of readiness to act and the overcoming of obstacles.

<table>
<thead>
<tr>
<th>Loyalty phase</th>
<th>Characteristics</th>
<th>Vulnerabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cognitive</td>
<td>Advantageous qualities and features perceived</td>
<td>Superficial, low intensity loyalty</td>
</tr>
<tr>
<td>Affective</td>
<td>Attachment and attitude toward brand established</td>
<td>Vulnerable to switching</td>
</tr>
<tr>
<td>Conative</td>
<td>Commitment or plan to repurchase</td>
<td>Desire may remain unfulfilled</td>
</tr>
<tr>
<td>Action</td>
<td>Strong eagerness to act</td>
<td>Deteriorating performance</td>
</tr>
</tbody>
</table>

**Figure 2.4 Loyalty Phases (Adapted from Oliver, 1999)**

With this framework of loyalty phases Oliver (1999) completed the preceding cognitive affective-conative frameworks (Dick and Basu 1994; Oliver 1997) with an action phase bringing the attitude-based loyalty models towards action and repurchase behavior. To summarize, cognitive loyalty focuses on the brand's perceived characteristics, affective loyalty is directed toward the brand's likeability, conative
loyalty is experienced when the consumer has an intension to re-buy the brand, and action loyalty is a deep commitment to the action of repurchasing. (Oliver 1999).

**Figure 2.5: Factors influencing loyalty (Adapted from Kuusik, 2007)**

The review of the earlier studies in this research and the identified eight loyalty dimensions used as a basis of the multi-dimensional loyalty view in this study are presented in Figure 2.5.
Figure 2.6: Loyalty dimensions in earlier research leading to the seven dimensions of Loyalty used in this study

The figure 2.6 presents the different conceptualizations of brand loyalty dimensions. The first level shows the one-dimensional approach adapted by early researchers such as Cunningham (1956) and Farley (1964). Day (1969) was the first one to introduce the attitudinal dimension to complement the behavioral aspect of loyalty, as shown on the second level of the figure. Worthington, Russell-Bennett & Hartel (2009) divided the attitudinal dimension into cognitive and affective loyalty as demonstrated in the figure as three-dimensional loyalty. The approach was also supported by Dick and Basu (1994) and Oliver (1997).

Attitudinal loyalty is presented in grey since it is not a part of the conceptualization on this level but stays in the background to be presented later as one of the dimensions in the concept of multi-dimensional brand loyalty. Oliver’s (1999) later conceptualization was the four phases of loyalty on the next level of the figure. Finally, all of the dimensions presented in previous literature come together in the last level named multi-dimensional brand loyalty. In addition to the previous conceptualizations of loyalty dimensions the multi-dimensional brand loyalty
includes commitment and trust that according to several researchers (e.g. Baloglu 2002; Bendapudi & Berry 1997; Morgan and Hunt 1994; Sudhahar et al., 2006, Alhabeeb, 2007) should also be included as dimensions of loyalty.

Customer retention and customer relationship management have therefore become key issues for banks.

“Whereas previous generations of bankers took customer loyalty as a given, the new generation of banks know that lifelong customers are a thing of the past and that customers can and will change their bank if their expectations are not met by their existing provider.” (Szymigin and Carrigan 2001)

2.5.5 Linking Customer Loyalty To Relationships

Customer loyalty is a central goal of relationship marketing, supported by numerous claims of how organisations can benefit from having loyal customers. Customer loyalty has been linked to customer profitability (e.g. Reichheld and Sasser 1990; Anderson and Mittal 2000) due to reasons such as lower marketing costs, possibilities for cross-selling, and premium pricing (e.g. Reichheld and Sasser 1990; Reichheld 1996b; Narayandas 1998).

Loyal customers are also more likely to become advocates of the organisation, spreading positive word-of-mouth (Reichheld and Sasser 1990; Reichheld 1996b; Narayandas 1998). Customer loyalty is not only a goal of relationship marketing; it is also conceptually closely related to the concept of relationships. Like customer loyalty, relationships have been conceptualised as having a behavioural and an attitudinal dimension.

“...even a single encounter includes elements by which a relationship between the service provider and the customer can be built” (Grönroos 2000)

A common view seems to be that a relationship exists when exchanges are viewed by the customer in relation to past and future exchanges (Dwyer et al., 1987; Czepiel 1990; Anderson 1995; Iacobucci and Ostrom 1996; Odekerken-Schröder 1999).

21 The customer view on the relationship can be used to decide when discrete transactions turn into a relationship in studies where a customer perspective is adopted (as in this study). In dyadic studies, a relationship should be defined based on the perceptions of both actors.
"One or more exchanges between a buyer and a seller that are perceived by the buyer as being interrelated to potential past and future exchanges with the seller" (Odekerken-Schröder 1999:19)

Relational exchange is hence characterized by longer exchange, where each exchange is viewed as part of an ongoing process (Dwyer et al., 1987). In addition, a relationship is generally considered to incorporate personal, non-economic aspects Liljander and Strandvik (1995) argue that one episode is the starting point of a relationship, but not yet a relationship, since it can also be the last episode. They suggest that, in addition, the customer’s commitment should be considered, and therefore a repeated buy is only a minimum requirement for a relationship to exist (ibid). Little and Marandi (2003) also state that it is generally agreed that a series of transactions where the supplier and buyer do not really know each other is not yet a relationship.

In a banking context, where exchange is usually continuous and based on some kind of contract, the relational mode would seem to dominate. Discrete transactions come into question only rarely, e.g. when a customer of another bank occasionally visits a competing bank to pay a bill or exchange currency. In such contexts, the existence of a contract can be used to determine when a relationship exists (Liljander and Strandvik 1995). In retail banking, the signing of a contract is without doubt when the relationship officially begins, which could be considered the behavioural sign that a relationship has been formed. There are, however, also attitudinal aspects of when a relationship exists.
Table 2.2: Sources of Loyalty supporting and repressing factors

Source: Developed by Nordman Christina (2004)

<table>
<thead>
<tr>
<th>Source of factors</th>
<th>Derived from</th>
<th>Definition</th>
<th>Banking example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>Halinen (1994) Bendapudi and Berry (1997)</td>
<td>Factors stemming from outside the customer-provider dyad</td>
<td>▪ Market situation ▪ Competitors’ actions</td>
</tr>
<tr>
<td>Service provider</td>
<td>Halinen (1994) Bendapudi and Berry (1997)</td>
<td>Factors stemming purely from the provider or the customer’s perception of</td>
<td>▪ Image of the bank ▪ Mergers</td>
</tr>
<tr>
<td>Customer</td>
<td>Halinen (1994) Bendapudi and Berry (1997)</td>
<td>Factors stemming purely from the customer (e.g. personality) or the customer’s life situation.</td>
<td>▪ Customer level of expertise ▪ Changes in life situation, e.g. need for new apartment</td>
</tr>
<tr>
<td>Interaction</td>
<td>Halinen (1994) Bendapudi and Berry (1997)</td>
<td>Factors that exist as a result of the interaction between the service provider and the customer.</td>
<td>▪ Positive and negative incidents ▪ Satisfaction/dissatisfaction</td>
</tr>
<tr>
<td>Product/core</td>
<td>Halinen (1994)</td>
<td>Factors linked directly to the product or core service itself or its characteristics.</td>
<td>▪ Prices, margins, interest rates ▪ Availability of loans</td>
</tr>
<tr>
<td>service</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.6 Chapter Summary

The literature review has looked at the research on various issues related to service quality and customer satisfaction over the period of time. The current literature has been reviewed and analyzed the literature on the determinants of Customer satisfaction, Customer Loyalty. This led to the initial short-listing of dimensions to be studied in the empirical survey. In addition, the literature related to the measurement of customer satisfaction, Recommend Intentions, Customer Loyalty and future usage intentions was also scanned and appropriate ways of measuring these constructs was arrived at. The literature review was a very important part of the research study. It was with the help of extensive literature review that the study was designed. The literature review helped in the identification of the constructs and appropriate dimensions to be studied.