Chapter 2

Review of Literature
This chapter 'Review of Literature' is done in two phases. In phase one, i.e. part-I, the researcher highlighted the basic terminology of electronic banking, outlined the current trends in the financial markets and discussed with consumer perceptions and reactions. Part-I ended up with consumer behaviour model in the financial services industry. The primary objective of phase two, i.e. part-II is to review the consumer behaviour literature. The goal of part-II is to identify consumers' activated knowledge in the form of beliefs, as the basic factor underlying their attitudes are subjected to norms, intentions and finally, their behaviour.

Literature survey is an essential part of any research study, since it enables a researcher to get familiar with the subject background. Finding relevant published materials is a major activity in the early stages. Through a literature review, one can find out other people ideas, approaches, methodologies, obstacles and so on, about his/her subject of interest. Finally, this activity will help the researcher to clarify the subjects, define objectives and make an accurate proposal.
Part-I

2.1 Electronic Banking in a wider perspective

Review of literature part-I is structured along several themes. First of all, this part discusses the requirements of a good electronic banking platform in terms of technological infrastructure in Indian banking sector. Second, it explains the basic terminology of electronic banking. Third, this part outlines the various impacts of electronic banking on the whole financial service industry. Fourth, the benefits of electronic banking are introduced, and security concerns analyzed. Fifth and sixth, this part deals with consumer perceptions and e-banking. Finally, the part concludes by exploring consumer behaviour model in the financial services industry. This part in this chapter is essential because it is impractical in the research articles themselves to outline the forces that have influenced the adoption of electronic banking and its various implications.

2.1.1 Technological development in India: A good platform for electronic banking

Marriage of technology and banking is inevitable to keep pace with changes in the global scenario. The Verma Committee recommended the need for greater use of IT even in the weak public sector banks.

The Reserve Bank of India (RBI) installed its first computer in 1968, and a larger one in 1979. But the United Commercial (UCO) Bank, the Standard Chartered Bank, Lloyds' Bank, Grindlays and others had installed accounting and other machines before 1966. Operations such as payrolls had been computerized fairly early on. Some head offices began to use computers by the beginning of the 1980s. In September 1983 two of the major banking unions – the All India Bank Employees Association
(AIBEA) and the National Confederation of Banking Employees (NCBE) signed an agreement with the Indian Banks Association (IBA), representing 58 bank managements. The unions wished to maintain surveillance of the process and to protect job prospects in the banking sector, but the final settlement was self-contradictory.

The 1983 agreement provided an opening for individual banks to make their own computerization agreements and many foreign banks immediately took advantages of this 'openness' to negotiated agreements giving them a free hand to introduce new technology, despite the careful restrictive approach of the AIBEA and NCBE.

In March 1987 the AIBEA and NCBE signed a new settlement with the IBA. The settlement was similar in its approach and concerns to the 1983 agreement. Taking advantage of the 'openness' clause in the 1983 and 1987 agreements, some of the AIBEA’s own affiliates agreed to the installation of Automated Teller Machines and fax machines, which were beyond the purview of the industry level accord. There were signs that the AIBEA has been forced to reverse its earlier relatively liberal stance on computerization because of the campaign spearheaded by its arch rival, the Bank Employees’ Federation of India (BEFI), which has been seeking recognition from the IBA.

Current scenario:

According to Internet and Mobile Association of India’s (IAMAI) report on the online banking trends in India, the Internet population in India was 38.5 million in 2006-2007 and its is set to grow to a 100 million by 2007-08. The number of customers who bank online is expected to grow over 16 million (inclusive of Internet and Mobile
Review of Literature

banking) by 2007-08. The report also indicates that only 5 percent of the Internet users were using e-commerce online banking in 2006-07.

The market size of e-commerce segment was just Rs.7080 crores in 2006-2007. It can be juxtaposed against some other interesting details which indicate that the Gross Domestic Product (GDP) (on purchasing power parity basis) of India is estimated to be $2.965 trillion in 2007 and the economic growth is stable at about 9 percent. Most of these transactions are in non-electronic form. Clearly, it can be argued that e-commerce and online banking have not penetrated in India to the expected levels compared to the growth in other areas. A widespread trust in the security of electronic transactions is yet to develop among the masses and that perhaps is the main reason why Internet Banking / e-banking has not grown well in India.

2.1.2 Basics of electronic banking

The most general types of electronic banking in our times is banking via Internet, Mobile phone, Telephone and ATM. The term electronic banking can be described in many ways. In a very simple form, it can mean the provision of information or services by a bank to its customers, via a computer, telephone, or mobile phone (Daniel 1999). It as an electronic connection between bank and customer in order to prepare, manage and control financial transactions. At an advanced level, Internet Banking is called transactional online banking, because it involves the provision of facilities such as accessing accounts, transfer of funds, and buying financial products or services online (Sathyey 1999). The terms Internet banking and online banking are often used in the
literature to refer the same things. Nowadays the Internet is the main channel for electronic banking.

Indian Banks Association defines Electronic banking as, “an umbrella term for the process by which a customer may perform banking transactions electronically without visiting an institution”.

Banking is becoming so intricate and is no longer as simple like taking deposits and lending in market. It has got several dimensions and nobody is a perfect authority in banking today because of new products, new things happening across the globe everyday (T.S.Narayanasami, 2008).

E-banking is one of the most challenging tasks in computer science for many reasons. First, the number of end-users of this complex system is extremely high as e-payment concerns the whole world. Second, financial transactions must be as secure as possible to limit frauds while providing a fast service to users. Finally, the banking infrastructure involves many different technologies in electronics and IT (Marc Pasquet, Vincent Alimi, 2008).

Telephone banking, mobile banking and managed network do not play such a big role in banking today. However, in future the delivery platform is expected to shift from wired Internet connections to wireless mobile technologies. Thus, as Wah (1999) points out, electronic banking does not necessarily have to be on a computer screen. It can, for example, be on the tiny screen of a mobile phone or any other wireless device. With these wireless applications, customers can, for example, consult their bank account balances and transaction histories, view pie charts of their holdings in a portfolio, initiate payments or orders to buy and sell securities, and also send e-mail to their banks.
2.1.3 Fundamental changes in the banking sector

The foundation for large-scale induction of IT in the banking sector was provided by the recommendations of the committees headed by Dr. C. Rangarajan, in 1984 and 1989. Subsequently, in 1994, the Reserve Bank constituted a committee on 'Technology Up-gradation in the Banking Sector'. The committee made a number of recommendations covering payment systems including setting up of an autonomous centre for development and research in banking technology. The Institute for Development and Research in Banking Technology (IDRBT) was created as a sequel. The Institute has established and operates the Indian Financial Network (INFINET), performs research in banking technology and provides consultancy services apart from providing educational and training facilities for the banking sector (Y.V.Reddy 2006).

Information Technology refers to the creation, gathering, processing, storage and delivery of information and the processes and devices that make all this possible (Pandey US, Rahul Srivastava and Saurabh Shukla 2007).

The first set of applications that could benefit greatly from the use of technological advances in the computer and communications area relate to the payment systems which form the lifeline of any banking activity. The usage of electronic means of funds movement and settlement is still in its stages of infancy. Various forms of electronic based payment have been slowly making their appearance - credit cards, Automated Teller Machines (ATMs), Stored Value cards, Shared Payment Network Service (SPNS), while electronic settlement has been in the form of the electronic funds transfer services introduced by the RBI - viz. Electronic Clearing Services (ECS) - Credit Clearing & Debit
Clearing and retail Electronic Funds transfer (EFT) System (Vepa Kamesam 2001).

The banking system has grown enormously in the last five years keeping pace with and in some cases leading the country’s remarkable economic growth. Simultaneously, the banking system has improved its strength, efficiency and resilience. There have also been significant improvements in the payments and settlements system and electronic payments and Real Time Gross Settlement (RTGS) is now much more in use. IT has played a major role in these achievements. Today banks have centralized operations, more and more banks and branches are moving to Core Banking System (CBS), network based computing, new delivery channels such as networked ATMs, Internet Banking, smart card based products, mobile access etc. and are using IT for customer relationship management, customer transaction pattern analysis credit profiling and risk management. Rough estimates assuming teller at Re 1 per transaction put ATM transaction costs at 45p, phone banking at 35p, debit cards at 20p and Internet banking a measly 10p (Usha Thorat 2008).

India was described as “A sleeping giant” for several decades; now the giant has woken up with a big thunder. The economic and financial reforms and the introduction of electronic technology in banking have brought significant and radical changes in banking practice. The growing competitions among banks have necessitated the quick transformation of the network of services provided by the banks through Information technology. Virtual banking devices will revolutionize banking which facilitate global trading to a large extent. In fact, these services have prompted people to buy products of international standard (Mariya Francis David 2005).
The payment and settlement system, by providing a fast, efficient and secure basis for financial transactions, forms the bedrock of the financial system. IT has become the single largest facilitating force behind the successful transformation of transactions and analytical processing of banking business. The convergence of paper and electronic modes of payment, improvement in operational efficiency and flexibility through adoption of IT intensive processes and innovations in the nature of new delivery channels have significantly changed the financial landscape of the Indian banking sector. During 2007-08, the Reserve Bank continued to exercise its oversight for facilitating a secure, efficient and sound payment and settlement systems. The Reserve Bank put in place a robust IT system for itself besides charting out the IT Vision Document for the banking system (RBI Annual Report 2007-08, 114).

The major challenge relates to *the bridging the divide caused by distances*. Today, banking has broken all geographical barriers and demand from customers relates to ‘anywhere and anytime banking’. Currently, IT based offerings such as Internet and Mobile Banking have provided customers with the means for meeting the requirement of being able to perform banking transactions from anywhere. The death of distances have also necessitated that banks in India do not merely look inward. Developments elsewhere in the world have also a strong impact on the efforts of Indian banks and these have to be factored in an always vibrant world of technology based banking (V. Leeladhar 2005).

The rapid changes in banking system have created a new dimension in the banking industry with the emergence of Internet banking. The consumer's adoption behaviour driven by the evolution of new banking technology. The social norm effect dominates Internet Banking adoption (Annamalah, Sanmugam 2007).
Review of Literature

The growing rate of IT utilization particularly the Internet has influenced at an exponential rate, online interaction and communication among the generality of the populace. The shortcomings notwithstanding, most people are connected through their cell phones, home PCs (Personal Computer) and others through corporate access and public kiosks. The patronage of the Internet all over the world is monumental and has remained on the increase from inception (Ayo Charles, K. 2006).

Yet another factor which is the driving force behind the use of technology in banking relates to the ever increasing expectations of the customers. Today's customers are more demanding and are also more techno-savvy compared to their counterparts of the yester years. They demand instant, anytime and anywhere banking facilities. Unless the banks recognize this and reorient themselves, they will have no future. It is information technology which enables banks in meeting such high expectations of the customers (Rakesh Mohan 2004).

The concept and scope of E-banking is still evolving. The government of India enacted the IT Act, 2000, which provides legal recognition to electronic transactions and other means of electronic commerce (Uppal, R.K. & Jatana, Rimpi 2007).

As Seipp (2000) clearly points out in his thesis, the basic trends affecting the financial markets are globalization, deregulation, liberalization, technology, and new demographic trends. First of all, globalization is expected to “reflect the progressive interaction of the world economics” (World Bank 2000). Liberalization and deregulation in the banking sector mean the increasing competition among banks and other financial institutions. As a result, banks are no longer the only
players in the financial service sector. It is expected that e.g. telecommunication companies will offer similar transaction services, selling financial products/services via the Internet. Technology, specifically the Internet, has had a profound impact on the financial markets. New demographic trends point to changes in the customer base. According to Seipp (2000), two primary demographic trends are influencing the financial markets: (1) the increase in the number of elderly people, and (2) the decrease in the size of the active population. In addition, enhanced mobility is having a great impact on consumer behaviour.

Economic and political changes have increased power and rights of the customer, whereas legislation has increased competition in the financial services industry. Consumers are now facing a plethora of financial products and providers. The changing social environment includes the emergence of mature bank customer segments. Mature customers provide new challenges for financial service providers. Social changes have also taken place in cultural values and beliefs and in attitudes toward technology and society. Changes in technology include the rapid growth of information technology and the impact of this on the banking world is total. New technologies create new markets and opportunities for the banking sector as well. Managing and satisfying the customer with different delivery channels has become a key issue for the sector's players. As a result of the high cost of developing and introducing new technologies, many firms are copying competitors' products and making minor improvements in features and style.

Volatile supply forces have an impact on the delivery chain of banks. As stated in previous paragraphs of this chapter, the reduction in the number of bank branches and bank personnel has changed the
banking sector. As a consequence, bank customers are in a sense constrained to use electronic delivery channels in their banking instead of having an extensive traditional branch network with many employees around them. Further changes can be expected with the implementation of Internet-enabled delivery mechanisms. However, banks are investing heavily in online customer services in order to provide fast and easy-to-use electronic delivery channels with personalized service.

2.1.4 Importance of security in electronic banking

Security has been widely recognized as one of the main obstacles to the adoption of e-banking. Many studies suggest that banks must first convince their customers that e-banking and transactions are secure before customers show willingness to use e-banking. Security is a very important aspect in the debate over the challenges facing electronic banking. Further, it has been stated in numerous studies that the greatest challenge to the electronic banking sector will be winning the trust of consumer in issues of security and confidentiality. Adam et al. (1999, 123) claim that ensuring security and confidentiality are fundamental prerequisites before any commercial activities involving sensitive information can take place. They add that security is the leading barrier to widespread electronic business on the Internet. The rapid developments in technology have made significant contributions to securing the Internet for electronic business. However, the challenges remain in this area, and security remains a substantial issue for the development of electronic businesses, especially electronic banking.

Security is of paramount importance to Internet users. According to a study made by Gertey and Lin (2000), Internet users are aware that
Review of Literature

cookies are placed on their computers without their permission, and that their movements on the Internet are also tracked. In addition, their survey results revealed that respondents were afraid to give their financial information to the Internet, and they were also reluctant to do their banking via the Internet. They suggest that one way to reduce this concern is to cultivate brand equity. Brand equity appears to play a major role in consumer decision making about products and services (e.g. banking services). They conclude that only by enhancing brand equity will marketers move consumers online. According to Furnell and Karweni (1999) consumers with a greater awareness of security will be more likely to use Internet-based services such as shopping and banking. Their results imply that awareness is the key in increasing consumer confidence. However, service providers in the Internet have made major developments, for example, in the methods of payment available via the Internet. Consumers can nowadays choose between many modes of payment: if one does not feel comfortable in giving his or her credit card number on the Internet he or she can choose another mode of payment. Many electronic shopping sites have made agreements with banks operating on the Internet, allowing consumers to pay for their shopping by traditional paper bills. Nevertheless, security issues remain the number one challenge to electronic banking service providers. They must win the customer’s trust – through education and marketing strategies.

On the limited empirical data available, the negative attitude of consumers toward the security of Internet banking seems to remain one of the most significant barriers for its adoption. In the view of some international experts, security concerns arise from the use of an open network, i.e. consumers are afraid their personal financial information
will become available to others via the Internet. (Thorton Consulting 1996; Daniel 1999; Furnell and Karweni 1999; Bestavros 2000).

The secure electronic transaction (SET) standard developed by the major credit card companies (e.g. VISA and MasterCard) for online e-commerce transactions. Specifically, SET addresses several security needs specific to electronic commerce (Furnell and Karweni 1999): (1) privacy of payment data and confidentiality of order information transmission, (2) authentication of a cardholder for a branded bankcard account using digital signature and cardholder certificate, (3) authentication of the merchant to accept credit card payments using digital signature and merchant certificate, (4) ensuring payment information integrity by the use of digital signature, (5) special purpose certificates, and (6) non-repudiation for dispute resolution.

Security concerns are the single biggest factor inhibiting consumer acceptance of mobile banking. These concerns are as much a matter of consumer perception as they are of reality – so getting both right will be key. The volume of attacks on mobile banking systems is negligible in the still nascent and fragmented market that exists today, but will rise as adoption builds, and in particular, as operating system consolidation and platform standardization increases. With a well-designed security program in place, mobile has inherent safety advantages that make it one of the most protected channels for remote banking (Research and Markets, 2008).

Recent improvements to the design of payment and settlement systems, such as the adoption of large-value payment systems with intraday finality and of delivery versus payments systems, have made the
intraday liquidity management highly critical for banks (Ashish Srivastava, 2008).

2.1.5 Consumer perceptions and the use of electronic banking

Consumers' acceptance of technological innovations may be influenced not only by their socioeconomic and demographic characteristics, but also by their perceptions of specific technologies and by the characteristics of different products and services (Fred D. Davis, 1989). For example, consumers may be motivated to use some electronic banking technologies because of the perceived convenience and time saving. In one survey of computer banking users, 79 percent indicated that convenience was very important in their decision to use computer banking and 71 percent said that saving time was very important; in another survey, a large proportion of consumers said that twenty-four-hour availability was the most important factor in their use of computer banking (Susannah Fox, 2002). Other studies indicate that consumers will not adopt a new financial product unless it reduces their costs and does not require them to change their behavior when using it. Adoption has also been associated with a technology's availability and the time required to learn and to use it (Orazio P. Attanasio, Luigi Guiso, and Tullio Jappelli, 2002).

Some research has found that perceived ease of use and usefulness is associated with adoption of electronic technologies. Still other research suggests that a lack of understanding of how specific e-banking technologies operate, of their intrinsic benefits, and of ways to acquire them is associated with lower adoption rates (Federal Reserve Bank of St. Louis, 1998). One study found a correlation between adoption and
consumer desire for control, incentives, privacy, and personal involvement; for example, consumers who perceived a greater value in controlling their payments (such as having the ability to decide when a bill is paid and receiving a receipt of payment) were less likely to use electronic payment. Finally, research has identified a user-friendly site and consumer confidence in the institution and in network security as important in the decision to use computer banking (Alenka Grealish, 2002).

Competitive marketing strategy focuses on how a business should deploy marketing resources at its disposal to facilitate the achievement and maintenance of competitive positional advantages in the marketplace. The marketing mix widely referred to as the 4Ps of Product, Price, Place and Promotion was originally proposed by McCarthy (1981) and is still used as an essential part of formulating and implementing marketing strategies by the practitioners. The 4Ps have since been extended to the 7Ps which include three further elements that better reflect service delivery: People, Processes and Physical evidence. E-commerce has provided many opportunities for the marketers to formulate marketing mix strategies to offer products and services for Electronic Banking so as to provide better customer service (Bikram Jit Singh Mann & Sunpreet Sahni, 2007).

2.1.6 Consumer perceptions and electronic banking: Insights from national and international studies

There has been wide discussion in the literature, on the one hand, about the adoption process of electronic banking services and on the other hand, about consumer reactions to the new delivery channels. For
example, Athanassopoulos and Labrouskos (1999) studied electronic banking in Greece. They give excellent insights into the consumer adoption of electronic banking. Their research findings suggest that product-specific attributes such as price and speed are conceived differently by customers. Price seemed to be one very important criterion in the adoption of electronic banking. Moreover, speed and the bank's reputation were considered important as well. Finally, respondents placed some weight on knowledge of their bank’s personnel and their willingness to serve customers.

Another study, conducted by Daniel (1999), suggested that convenience, increased choice of delivery channels, and improved personal control over the banking activities are the driving factors accelerating the adoption of electronic banking in the UK and Ireland. Additionally, this study recognized that electronic banking could reduce consumers' banking costs and offer further competitive advantage to banks. One interesting aspect of the study was that respondents stated that electronic banking is unimportant if it does not offer money transmission services. Finally, consumers valued accessibility, functionality, and low-cost service in Internet banking.

In a study of Internet banking, Jayawardhena and Foley (2000) demonstrate that time, privacy control and economic issues are among the aspects that customers see important in electronic banking. This study indicates that consumers are becoming busier, and hence, seeking to carry out their banking transactions at times convenient to them.

The development of Internet banking will depend strongly on the number of consumers acquiring and retaining Internet access (Kingsley and Anderson 1998). Fisher (2000), for instance, says that each
individual’s attitude toward technology itself impacts significantly on adoption.

According to a study made by Arne Floh and Horst Treiblmaier (2006), Surveys might be an adequate instrument for online banks to learn about their customers' attitudes. The comparatively high response rate for an online survey can be taken as an indicator that customers of Dotcoms are actually willing to give feedback and get in touch with their supplier.

According to a study made by Ahmad Zakaria Siam (2006), Among the findings which draw the attention is the increased need to electronic banking services due to new client’s needs, bank expansion in providing electronic services increases number of clients and enhances their loyalty to the bank which reduce the operational costs by increasing banking transactions through Internet, so bank’s outcomes will be increased and also profits increased by reducing time and effort, and achievement of electronic banking service quality.

According to a study made by Tonita Perea y Monsuwe’, Benedict G.C. Dellaert and Ko de Ruyter (2004), Attitude toward online shopping and intention to shop online are not only affected by ease of use, usefulness and enjoyment, but also by exogenous factors like consumer traits, situational factors, product characteristics, previous online shopping experiences and trust in online shopping.

Even though the development of electronic commerce is continuously growing, it is difficult to increase the client base of an online business. Competitiveness in electronic commerce is huge because of the large number of agents involved in it, the reduced search costs and
the high power obtained by the consumer with the appearance of the Internet (Ba et al., 2006).

According to a study made by Olga luštšik (2003), the new information technology is becoming an important factor in the future development of financial services industry and especially banking industry. Banks are faced with a number of important questions, for examples how to take full advantage of new technology opportunities, how e-developments change the ways customers interact with the financial services provider, etc.

According to a study made by Christopher Gan (2006), the banking industry is constantly responding to changes in customer preferences and needs; increasing competition from non-banks, changes in demographic and social trends, information technologies advances, channel strategies, and government deregulations of the financial service sector.

According to a study made by Sangeeta Arora and Shubpreet Kaur (2007), Banks, the world over, are transcending their normal business operations and diversifying their activities in response to economic and financial sector reforms. The Indian banking industry too has been seen steadily shifting away from traditional sources of revenue like loan-making etc., towards nontraditional activities that generate fee income, service charges, trading revenue and other types of noninterest income.

According to a study made by T.M.Bhasin (2007), With the widespread use of technology in the baking arena both with the county and outside, it is for sure that technology can play a vital role in turning around the future of the rural India. As the technology deployment in the banking industry and financial institutions is more than two decades old, it is the right time to leverage the benefits of technology in financial
inclusion of the rural India in a big way. In fact, what could not be achieved during the past six decades of independence now looks achievable in the near future with the use of contemporary technological tools.

E-commerce refers to the use of communications technology particularly the Internet to buy, sell and market goods and services to customers. The Internet has brought about a fundamental shift in national economies that are isolated from each other by barriers to cross-border trade and investment; isolated by distance, time zones and language; and isolated by national difference in government regulations, culture and business systems (Mohammad, 2004).

The banks' technology-based initiatives have been aimed at enhancing value by integrating diverse products, offering customer convenience and improved service while optimising costs (Pravir Vohra, 2006).

Internet banking is a new channel to serve corporate clients. This reduces a large amount of paperwork. There will be a little human interface between banks and clients. It enables the banks to extend their services to wider areas. On the other hand banks also can move into the phase of centralized banking and distributed banking can continue in respect of retail banking. This also facilitates easy access. . Since the people are getting educated and in their hurry bury life they find it more convenient (Durai K, 2005).

Technology appears to be a promising solution to be more inclusive in taking the financial services to the doorsteps of the community. It is observed that ATM transaction costs are as much as five times less expensive than those of a bank teller. Other technologies,
particularly mobile phones, are now widely used among poor people across Africa (R.Devaprakash, 2008)

A cheque is a pulling device which can draw funds from the payers’ account, whereas an electronic payment is a pushing device, which carries the funds to receiver’s account (The Indian Banker, 2007).

Technology is rapidly changing the face of banking industry and enhancing the demand for better than the best services. It is helping banks in breaking the bottlenecks in superior customer experience. Technology has made the world a global economic village. Banking services are no more confined in brick and mortar environment. Technology has made it possible to transact business any time, any where and from any branch office of a bank (P.K.Khanna, 2007).

2.1.7 Summary and discussion

The purpose of the first part is to shed light on the development of electronic banking by reviewing the literature. The researcher began this chapter by discussing the requirements for a good electronic banking platform and defining the concept electronic banking. Second, the section describing the fundamental changes in the banking sector has been undertaken to highlight the factors that have influenced the development of financial products and service delivery. Third most influential forces affecting the banking world today are found to be the reduction in the number of bank branches, growth of electronic delivery, increasing competition and changing consumer behaviour. Fourth, the researcher discussed in detail the security issues in electronic banking. This part ended up with a description of consumer perceptions and the use of electronic banking and introduced the topic of consumer behaviour.
models in the financial services industry by examining the model developed by Beckett et al. (2000). Because this thesis studies consumer perception, the researcher aims to develop a descriptive model of consumer behaviour in the financial services industry in the latter part of the study. It is hoped that this part has paved the way for further discussion of consumer perception in the chapters to come.

Part-II

2.2 A psychological approach to consumer behaviour

Review of Literature Part-II highlights the importance of studying consumer behaviour. Several important areas of consumer behaviour research will be addressed. This chapter looks at consumer behaviour in general, the consumer decision making process, the formation of beliefs and attitudes and their measurement, in an effort to construct a framework for understanding consumer behaviour in electronic banking. In this chapter, a cognitive psychological approach to consumer behaviour is taken, comprising the dimensions of attention, perception, comprehension and the consumer decision making process. This chapter reviews the consumer behaviour literature in order to acquaint the researcher with the basic terminology used in the field.

"Our species is referred as homo sapiens, or 'human, the intelligent.' This term reflects the general belief that intelligence is what distinguishes us from other animals. The goal of cognitive psychology is to understand the nature of human intelligence and how it works." (Anderson 1995, 1)

“The purpose of a business is to create and keep a customer.” (Levitt 1983, 5)
2.2.1 Theory of consumer behaviour

Consumer behaviour is a fascinating topic. It is vital for marketers to understand as much as possible about it. It has been argued that in such a competitive and constantly changing economic environment as we are living today, the survival and growth of companies necessitates precise knowledge about consumers. Therefore, modern marketing addresses the importance of knowing customers and their behaviour rather than concentrating on the operations of rival firms. Consumer behaviour examines people (what they purchase and why), marketing (the design of products and services) and consumer marketplace itself. Most consumers are not aware of the external influences that guide them toward purchases. For marketers, an understanding of consumer behaviour is increasingly recognized as a key factor in success, and it can lead to a competitive advantage for those who can use this information in their strategic and operational marketing (e.g. Peter and Olson 1990, 10-12). There are various definitions of consumer behaviour. Wilkie (1994, 14) for instance defines it as follows:

"The mental, emotional, and physical activities that people engage in when selecting, purchasing, using, and disposing of products and services so as to satisfy needs and desires."

Similarly, according to the American Marketing Association (2001) consumer behaviour is defined as

"the dynamic interaction of affect and cognition, behaviour, and environmental events by which human beings conduct the exchange aspects of their lives."

Consumer behaviour is often examined through two major psychological disciplines: (1) cognitive psychology, and (2) social psychology. The former refers to knowledge related to mental behaviours, i.e. attention, perception, comprehension and the decision making process. The latter
refers to the manner in which personality traits, attitudes, intentions and behaviours of the consumer influence and is influenced by social groups.

Consumer behaviour is also interactive between the marketer and the consumer. The central component of this interaction is consumer decision making: “the process of perceiving and evaluating brand information, considering how brand alternatives meet the consumer’s needs, and deciding on a brand” (Assael 1981, 10).

In addition, consumer behaviour research is a behavioural science. Therefore, its application to marketing has not proceeded seamlessly. For instance, Foxall (1980, 17) states that too much reliance has been placed on psychology and insufficient attention to sociology, geography, and anthropology. Hence, explaining and predicting consumer behaviour requires an understanding of all these.

Approaches to consumer behaviour research are the behavioural, environmental, and affect and cognition approaches. Behavioural approaches have been used in consumer research since the 1960s; however, they had occupied an important role in psychology for many years before that. The behavioural approach is mainly based on so-called applied behaviour analysis. Environmental consumer behaviour analysis is based on the idea that consumer behaviour is controlled by the environment. The affect and cognition approach is based on psychological theories and it investigates consumer information processing (Peter and Olson 1990, 40).

Consumer behaviour models have been very meaningful in academic research (Foxall 1980, 22). However, it has been argued that the majority of models produce very few implications for managers. Instead, managers want information about how their consumers act and
react rather than detailed analysis of the type of framework that is considered indispensable for academic projects such as dissertations (Foxall 1974). Nevertheless, consumer behaviour models are also valuable to managers as they help managers to organize their learning about consumers by, for instance, segmenting the market environment. Hence, by knowing consumers and their behaviour, companies are able to acquire a better understanding of them and build stronger relationships with them. The battle for customers has never been fiercer than it is today. Therefore, companies must understand who their customers are and how they behave. It is only through this knowledge of consumer behaviour that companies can satisfy the demands of consumers today and achieve a competitive edge over their competitors. In summary, consumer behaviour models should be viewed as a tool to organize and warehouse consumer data.

2.2.2 A cognitive processing model of consumer decision making

The model presented in figure-2.1 sheds light on two cognitive processes – interpretation and integration. This model shows the relationship between interpretation processes, integration processes, and long-term memory. In addition, environmental impacts and behavioural consequences are presented.

Cognitive processes operate constantly. In other words, cognitive processes always occur when a person is exposed to an external stimulus in the environment or feels an internal stimulus as an affective response (Peter and Olson 1990, 52). Generally speaking, a stimulus can be defined as "any specific change in physical energy or an event (whether
internal or external to the organism) which excites a nerve impulse and gives rise to a reaction" (Oxford English Dictionary 1989). As figure 2.8 clearly shows, two cognitive processes can be distinguished: interpretation and integration processes. Consumers’ determination of the meaning of important aspects of the environment surrounding them (both physical and social) as well as their own behaviour and internal affective stages all pertain to interpretation processes. Interpretation involves both attention and comprehension. Attention concerns how the cognitive system selects stimuli to interpret. Comprehension refers to the processes by which the cognitive system creates cognitive representations that stand for the subjective meaning of information.

Consumers’ knowledge, meanings and beliefs are also interrelated with the interpretation process. Peter and Olson (1990, 52) state that these three terms (knowledge, meaning, and belief) are often used more or less interchangeably. Beliefs are personal meanings produced by comprehension processes. Moreover, it is vital to note that there is a linkage between beliefs and long-term memory. Beliefs are stored in the long-term memory and when needed, portions of this knowledge may be activated.

The second cognitive process, integration, concerns how consumers combine and use information. Integration processes consist of attitudes and intentions. Attitudes may involve both cognitive and affective responses. Integration processes are used to make decisions or choices about what behaviour to perform or to make other behavioural choices besides purchase decisions (Peter and Olson 1990, 52). An example of such action could be, for instance, the choice whether to bank online or go to a traditional bank branch. Furthermore, consumers may also recommend an experience for others, or the opposite.
Another important aspect of the consumer decision making process is that it involves a choice between two or more alternative actions. Thereby, it is widely discussed in literature as a problem solving process. The outcome of this process, i.e. the selected behaviour, is a choice that is represented cognitively as a behavioural intention. Generally speaking, a behavioural intention is a plan to engage in a specific behaviour. Five basic stages in problem solving can be identified (see figure-2.2) in consumer decision making. (Assael 1981, 28; Peter and Olson 1990, 172).
The first stage is called problem recognition. Consumers become aware of the attitudes they have toward the object (e.g. banking via the Internet gives me more time and freedom). Problem recognition, also called need arousal, is thought to occur when consumers recognize that their current state of affairs is somewhat different from the ideal which they prefer. The second stage of problem solving process involves searching for alternative solutions and searching for more information about the object. This allows consumer researchers to segment consumers in terms of how much information search they do prior to purchase. While limitations on information search have been studied in terms of income, education, market experience, and innovativeness, challenged consumers are likely to face a somewhat unique set of influences regarding what is possible and effective in carrying out a search. In this case, a search is not only affected by prior product knowledge and experience but also greatly influenced by the choice sets that are available to the consumer (Kaufman 1995). The third stage, the evaluation of alternatives, comprises additional information collection; i.e. the more information about the object is collected, the closer the consumer will come to a decision. Hence, the object that comes nearest...
in meeting consumers’ needs will be chosen. The fourth stage involves behaviour, i.e. whether to purchase or not, and the fifth evaluation of that behaviour, in other words, feedback from the entire process to the first stage (problem recognition). After a purchase consumers will evaluate the object’s performance (e.g. “Internet banking really works and it was a good choice to move online”). Another important aspect is that consumers often provide explanations for their decisions to others and to themselves. This reasoning can, for instance, lead to highly unconventional decisions, as has been shown with empirical data (Bettman et al. 1998; Simonson and Nowlis 2000). Furthermore, the strategic implications of consumer decision making models can be summed up in the following way: models (1) encourage a total and integrative view of consumer behaviour, (2) help identify areas of information necessary for making marketing decisions, (3) encourage quantification of these variables (4) provide a basis for segmenting markets, and, finally, (5) provide a basis for developing marketing strategies (adapted from Assael 1981, 26).

To conclude, it is important to note that beliefs and attitudes influence decision making, and thus consumers’ overt behaviour.

2.2.3 Components and functions of attention and comprehension

In order to understand the role of cognitive psychology in consumer behaviour, the researcher shall consider the relevant concepts in this field in more detail. Interpretation concerns the reception and interpretation of external stimuli by an individual. While attention and comprehension are central components of interpretation process, they
also influence beliefs consumers have about a certain object. Additionally, in the literature attention is defined in a way very similar to that in which most of us normally think about this concept. Engel et al. (1968, 79) define it as "the process whereby stimuli are received and interpreted by the individual and translated into a response." Additionally, Walters (1974, 138) states that attention is the "process by which an individual becomes aware of his environment and interprets it so that it will fit into his own frame of reference." Similarly, Wilkie (1994, 217) defines attention as "the momentary focusing of our information processing capacity on a particular stimulus." These definitions are helpful in understanding the nature of attention. Furthermore, the consumer behaviour literature distinguishes three types of attention (see e.g. Wilkie 1994, 218): (1) planned attention, (2) spontaneous attention, and (3) involuntary attention. In the context of electronic banking, planned attention will be the type most likely to occur. Planned action, for instance, in Internet banking, stands for three types of behaviour. First of all, it means locating an Internet-connected device. Second, logging in with personal user ID and password and, third, engaging in behaviour, i.e. banking affairs. In other words, planned behaviour means behaviour planned beforehand.

Attention can also be defined as a process which varies along a continuum from a highly automatic, unconscious level, called preconscious attention, to a controlled, conscious level, called focal attention. Greater cognitive capacity is needed as interpretation processes move from preconscious attention to focal attention. In the focal attention stage, the consumer becomes more conscious of selecting and paying attention to a stimulus (Peter and Olson 1990, 113). In the first stage of the attention process information processing is automated and very little
made use of cognitive capacity. An example of such a low level of attention is that directed toward low-involvement products like soap, milk and other groceries. At the focal attention stage, consumers are able to control their attention; i.e. they can control which stimuli to attend to.

Attention is of paramount importance for marketers because attracting consumers is the whole basis of marketing. Wilkie (1994, 220) introduces two ways of attracting consumers’ attention: position and contrast. This framework mainly concerns advertising: how marketers should advertise and what kinds of advertisements have the greatest influence on consumer behaviour. Peter and Olson (1990, 109) define a better way of attracting attention. They say that marketers have three ways to raise the probability that consumers will be exposed to their information and products: “facilitate intentional exposure, maximize accidental exposure, and maintain exposure.” For instance, banks could train their personnel to answer consumers’ questions about electronic banking on the spot so that customers do not have to wait while the person responsible looks up the answer. Also, a company’s distribution channel plays an important role in creating accidental exposures to its products. The Internet offers a new distribution channel for traditional banks and it should be also advertised in that way, for instance as a new opportunity to pay bills without travelling to a bank branch.

Comprehension is part of the interpretation process. Comprehension can be defined as focused attention on specific stimuli. Moreover, consumers’ knowledge structures are activated from long-term memory. In other words, consumers interpret the meaning of marketing information. Simple comprehension processes are automatic. The less familiar the stimulus is, the more consumers need conscious thought and control. Comprehension is influenced by three main factors. First, it is
influenced by knowledge contained in the memory. Second, it is influenced by felt involvement. For instance, consumers who feel high involvement develop deeper meanings for the marketing information, creating more elaborate knowledge structures. Finally, the environment influences comprehension. For example, many factors can affect a consumer's opportunity to comprehend marketing information such as mood, pressure of time, and distractions (Peter and Olson 1990, 124).

In summary, marketers need to understand the attention and comprehension processes in order to design marketing information that will be interpreted appropriately. For instance, in the electronic banking world, it is vital to understand consumers' attention and comprehension processes. This information helps marketers to elaborate marketing and advertising strategies in the right way.

2.2.4 Four theories of attitude change

In addition to the strategies described above, other attitude change strategies are available in the consumer behaviour literature. For example, Runyon and Stewart (1987, 478) introduced four theories of attitude change: (a) cognitive consistency theory, (b) information processing theory, (c) cognitive response theory and (d) the theory of reasoned action.

First, the cognitive consistency theory suggests that creating an imbalance among the cognitive, affective, and behavioural components of attitude change attitudes. Basically, the idea underlying this theory is that consumers tend to be consistent in their beliefs, attitudes, and behaviour. Thus, any inconsistency acts as a stimulus to change the balance.
Second, information processing theory suggests that attitude change occurs via the provision of information. This theory is both widely used and relatively effective. In an interesting paper, Ariely (2000) examines how information processing affects consumers’ decision making and preferences. He argues that new technological developments in computers and networks have not only caused significant changes in consumer information processing, but also allowed marketers to integrate marketing and communication processes via the Internet. Third, cognitive response theory is related to information-processing theory, but differs in one respect: it emphasizes the active response to information. As Biel (1996) put it: “the cognitive response concept centers on the way in which messages evoke self-oriented thoughts.” The elaboration likelihood model, which explains the different ways of persuasion, is used in cognitive response theory. The model suggests that active information processing will only occur when consumers have both the ability and motivation to process information. Conversely, without the ability or motivation to process information, a person is more likely to engage in little information processing and to use simple decision making rules. Finally, as already stated earlier, the Theory of Reasoned Action suggests that both attitude and subjective norms are determinants of intention and behaviour.

2.2.5 Adaptive attitude change strategies

Adaptive attitude change strategies can be divided into four categories as figure-2.3 reveals. In each of these strategies, the marketer seeks to reinforce positive attitudes and appeal to consumer needs without making any attempt to change those needs or attitudes. This fourfold
table consists of two dimensions: the user dimension and the product dimension (Assael 1981, 213).

<table>
<thead>
<tr>
<th></th>
<th>Existing products</th>
<th>New products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing users</strong></td>
<td>Reinforcing existing users</td>
<td>Positioning new products to existing users</td>
</tr>
<tr>
<td><strong>New users</strong></td>
<td>Attracting new users</td>
<td>Positioning new products to new users</td>
</tr>
</tbody>
</table>

Figure-2.3: **Adaptive marketing strategies**
(Source: Assael 1981, 213)

Advertisers seek to reinforce existing users in order to maintain positive attitudes toward the object. In this way, the advertiser aims to ensure the loyalty of its core users. New users are attracted to existing products or services by the demonstration of benefits that satisfy their unmet needs. Companies have, for example, attracted new users by extending their appeal to new segments of the market. Positioning new products to existing users involves products that meet the defined needs of existing users of a particular product category. Moreover, these products represent line extensions of existing products or services (e.g. electronic retail banking). In the lower right-hand quarter, positioning new products to new users, marketers seek opportunities to meet the needs of new and emerging markets. The core of this quarter lies in
technological development, which enables companies to develop new products. To sum up, the principles of attitude change can be outlined as follows: (a) attitudes are easier to change than needs; (b) the cognitive component of attitude (beliefs, b) is easier to change than the affective component (evaluation, e); (c) weak attitudes are easier to change than strong ones; (d) attitudes held by consumers with less confidence in their brand evaluations are easier to change; (e) attitudes are easier to change when information is ambiguous; (f) attitudes are easier to change when there is a low level of ego involvement; and (g) attitudes are easier to change when they conflict with each other. (Assael 1981, 218-219).

2.2.6 Resistance to attitude change

Although attitudes can be changed in various ways, there are at least two fundamental factors that create resistance to attitude change. First, attitudes are likely to have arisen at an early age, and thus, can be said to be virtually personality traits. Second, attitudes correlate with each other, and hence, are difficult to change piecemeal. Ahluwalia (2000) pointed out that people with stronger attitudes are less likely to change their attitudes than consumers with weaker attitudes. She also suggests that studying resistance to attitude change is not only approved in theory, but it also has a pragmatic value as well. For instance, understanding resistance is essential in evaluating how strong an attitude to a brand is. Furthermore, the value of loyalty (i.e. the dimension of attitude strength) can be measured in terms of the resistance it generates in response to the attitudinal information (Ahluwalia et al. 2000).
2.2.7 Summary and discussion

The primary objective of this part was to review the consumer behaviour literature. The cognitive model of consumer decision making showed how beliefs, attitudes, and intentions are related to overall consumer decision making. The researcher then outlined the components and functions of attention and comprehension. Finally, the researcher discussed different attitude change strategies. The primary goal of part-II was to identify consumers' activated knowledge, in the form of beliefs, as the basic factor underlying their attitudes, subjective norms, and intentions, and finally, their behaviours.