CHAPTER 3

RESEARCH STUDY RELEVANCE AND
HYPOTHESIS DEVELOPMENT

3.1 BACKGROUND

In the era of globalization, marketing of services internationally has become a topic of discourse by various constituencies - governments, private institutions, academics, and individuals alike. There is consensus that businesses are going global faster than ever; rising trade and investments are creating national wealth and consumer affluence, especially in developing countries; a convergence of tastes and preferences of consumers across the globe is increasing demand for global brands and services; and technological advancements, especially information technology, are making the world more and more borderless. Simply stated, the last two decades of the twentieth century have created a totally new global marketplace and have established a fresh foundation for the twenty-first century global economy. Undeniably, nations' economies are becoming more and more economically interdependent, creating a dominant powerful economic force in which individual nations might not be as potent as they are collectively. This new force of the global economy is forcing goods and service firms to adapt to a
new international order and lay emphasis on customer service to make customers feel that he/she is actually the king.

One important sector that is playing a major role in the global economy is the service sector. The Uruguay Round of the General Agreement on Tariffs and Trade (GATT) paved the way for marketing services internationally. Since the agreement, barriers to trade have been reduced and trade in services has been growing in both developing and developed economies. FDI flow in services across all economies both in manufactured goods and services is also growing. For service marketers, these international activities mean unprecedented opportunities embodied with challenges. In the developing economies of which India is one, this has led to rising expectations of customers as they have access to world class products and services and the Indian firms and services providers who will not answer this call will perish sooner or later.

3.2 IMPORTANCE OF THE SERVICE SECTOR IN A GLOBAL ECONOMY

Worldwide trade in services grew faster than trade in merchandise during the 1990s. Total world trade in services exceeded $1.3 trillion in 1999. While services account for close to two-thirds of the world's total output as per the World Bank report 2000, they account for over 70 percent of production and employment in many developed nations. Services have come to play a pivotal
role in the value chain for both specialized service multinational enterprises (e.g. financial services) and multinational enterprises that produce services (e.g. marketing functions). Services are no longer viewed as peripheral activities under girding the manufacturing sector; instead, they have become the dominant force across the globe.

Service sectors such as professional services, entertainment, education, health care, banking, engineering and technology-based services are growing in importance and creating new markets and more jobs. A confluence of factors, including technological developments and advanced professional expertise, has enabled the service providers to attain the leadership position in the service sector.

Developing economies have achieved a growing share of world trade in services, surging from 17 percent in 1980 to 20 percent in 1997. In Asian emerging economies, the Asian tigers (Hong Kong, Singapore, South Korea and Taiwan) are catching up with advanced countries in terms of economic development and living standards. In South Korea and Hong Kong, for example, service exports have grown faster than goods exports for the past decade. In South Korea, services account for 52 percent of GDP, while Singapore exported nearly 70 percent of its total service output. Hong Kong has the most developed service sector, accounting for more than 80 percent of the GDP as well as employment. In Argentina services account for 65 percent of the GDP, 64 percent in Mexico, and 65 percent in South Africa. Similarly,
Indonesia, Thailand and China, currently employing less than 40 percent of the workforce in the service sector, are also showing signs of growth and opportunities in the services sectors.

Growth in the service sector can be clearly witnessed in all developed and developing economies. The service sector now accounts for more than half of India's GDP: 51.16 per cent in 1998-99. This sector has gained at the expense of both the agricultural and industrial sectors through the 1990s. The rise in the service sector's share in GDP marks a structural shift in the Indian economy and takes it closer to the fundamentals of a developed economy (in the developed economies, the industrial and service sectors contribute a major share in GDP while agriculture accounts for a relatively lower share).

The service sector's share has grown from 43.69 per cent in 1990-91 to 51.16 per cent in 1998-99. In contrast, the industrial sector's share in GDP has declined from 25.38 per cent to 22.01 per cent in 1990-91 and 1998-99 respectively. The agricultural sector's share has fallen from 30.93 per cent to 26.83 per cent in the respective years.

In India, the service sector's contribution in GDP has sharply risen. Within the services sector, the share of trade, hotels and restaurants increased from 12.52 per cent in 1990-91 to 15.68 per cent in 1998-99. The share of transport, storage and communications has grown from 5.26 per cent to 7.61
per cent in the years under reference. The share of construction has remained nearly the same during the period while that of financing, insurance, real estate and banking services has risen from 10.22 per cent to 11.44 per cent.

The stalwarts of India's financial community nodded their heads sagaciously when Prime Minister Manmohan Singh said in a speech: "If there is one aspect in which we can confidently assert that India is ahead of China, it is in the robustness and soundness of our banking system." Indian banks have been rated higher than Chinese banks by international rating agency Standard & Poor's.

With the credibility of the Indian banking system on a high, a number of Indian banks are now leveraging it to expand overseas. State Bank of India, the country's largest bank has acquired 76 per cent stake in a Kenyan bank, Giro Commercial Bank, for US$ 7 million. Canara Bank is helping Chinese banks recover their huge non-performing assets (NPA).

To meet the challenges of going global, the Indian banking sector is implementing internationally followed prudential accounting norms for classification of assets, income recognition and loan loss provisioning. The scope of disclosure and transparency has also been raised in accordance with international practices. India has complied with almost all the Core Principles of Effective Banking Supervision of the Basel Committee.
The use of technology has placed Indian banks at par with their global peers. It has also changed the way banking is done in India. 'Anywhere banking' and 'Anytime banking' have become a reality. The financial sector now operates in a more competitive environment than before and intermediates relatively large volume of international financial flows.

3.3 TRENDS IN INDIAN BANKING

The Indian banking industry is currently in a transition phase. On the one hand, the public sector banks, which are the mainstay of the Indian banking system, are in the process of consolidating their position by capitalizing on the strength of their huge networks and customer bases. On the other, the private sector banks are venturing into a whole new game of mergers and acquisitions to expand their bases.

The system is slowly moving from a regime of “large number of small banks” to “small number of large banks.” The new era will be one of consolidation around identified core competencies.

In India, one of the largest financial institutions, ICICI, took the lead towards universal banking with its reverse merger with ICICI Bank a couple of years ago. Another mega financial institution, IDBI, has also adopted the same strategy and has already transformed itself into a universal bank. This trend may lead to promoting the concept of a financial super market chain, making
available all types of credit and non-fund facilities under one roof or specialized subsidiaries under one umbrella organization.

Scheduled Commercial Banks (SCBs) in India are categorised into five different groups according to their ownership and / or nature of operation. These bank groups are (i) State Bank of India and its associates (ii) other nationalised banks (iii) regional rural banks (iv) foreign banks and (v) other Indian SCBs (in the private sector).

The banking sector witnessed strong growth in deposits and advances during the year 2004-05. As of March 2005, the number of commercial banks stood at 289. The aggregate deposits of SCBs increased from US$ 331 billion in March 2004 to US$ 374 billion in March 2005; credit increased from US$ 185 billion to US$ 242 billion; and investments swelled from US$ 149 billion to US$ 162 billion.

Net domestic credit in the banking system has witnessed a steady increase of 17.5 per cent from US$ 445 billion on January 21, 2005 to US$ 523 billion on January 20, 2006. The growth in net domestic credit during the current financial year up to January 20, 2006 was 14.4 per cent.

Nationalized banks were the largest contributors to total bank credit at 47.8 per cent as of September 2005. While foreign banks' contribution to total bank credit was low at 6.7 per cent, the contribution of State Bank of India and its
associates accounted for 23.8 per cent of the total bank credit. Credit extended by other SCBs stood at 18.9 per cent.

Indian banks, particularly private banks, are riding high on the retail business. ICICI Bank and HDFC Bank have witnessed over 70 per cent year-on-year growth in retail loan assets in the second quarter of 2005-06. Annual revenues in the domestic retail banking market are expected to more than double to US$ 16.5 billion by 2010 from about US$ 6.4 billion at present, says a McKinsey study.

The home loan sector is also on a smooth course. The average loan size of home finance companies is increasing. HDFC, the second largest player in the home finance business, has seen average loan increase from US$ 10,773 in FY04 to US$ 13,467 in FY05, a change of almost 25 per cent. For ICICI Bank, which is the largest player in the business, the average ticket size is about US$ 13,467 – US$ 15,711 and has increased by 10-15 per cent over last year.

Foreign banks are working on expanding their bases in the country. The Ministry of Finance and Reserve Bank of India have agreed to allow foreign banks to open 20 branches a year as against 12 now. At present, 40 odd foreign banks have over 225 branches in India. At the end of 2004-05, the total assets of foreign banks aggregated US$ 30 billion or 6.9 per cent of the assets of all scheduled commercial banks. They will also be allowed 74 per
cent stake in private banks. After 2009, the local subsidiaries of foreign banks will be treated on par with domestic banks.

Driven by increased competition, recessionary pressures to control costs, and customer demands for improved quality, 91 per cent of financial services companies have now adopted one or more quality initiatives. The banking sector is not left behind and emphasis on quality services, customer retention, relationship marketing, and relationship executives have become buzzwords in the Indian banking system. So why have these quality initiatives emerged within financial services, and what indeed do we mean by quality initiatives? What are the benefits for companies of adopting such initiatives and what are the drawbacks, and what possible forms might these initiatives take in the future?

Quality work is seen as a vital strategic element of meeting the challenge of the new, intensified competition. However, far from “quality being free” as some gurus claim, our research suggests that quality programmes are extremely expensive and their outcome, though potentially beneficial for companies seeking to build a competitive advantage, is difficult to quantify. Consequently, a cost-benefit analysis of quality initiatives is not readily available to justify their adoption.

The growing trend towards quality initiatives within financial services stems from the competitive pressures which have swept through the sector during
the 1990s. Deregulation and liberalization have blurred the boundaries between the hitherto distinct spheres of banking, insurance and mortgage provision. This has opened up the financial services marketplace allowing banks, building societies and insurance companies to invade one another’s territory, encouraging new entrants and stimulating mergers and acquisitions as a means of withstanding the increased competition.

The recessionary pressures of the early 1990s have further reinforced these trends of intensified competition and, industrial and corporate restructuring resulted in some large-scale redundancies, leaving the remaining labor force shocked by the dramatic erosion of secure jobs and careers for life.

Whether or not there is some connection, these transformations have also been accompanied by a growth in customer complaints according to both the Independent Consumer Guide and industry ombudsmen. In 1987, total complaints to the Banking Ombudsman were 1,748, while by 1993 there were 16,858 complaints, almost a nine fold increase. Complaints to the Building Society Ombudsman more than doubled in the period 1990-92, whilst the number of cases passed to the Insurance Ombudsman increased from 1,366 in 1987 to 5,576 in 1992. In response (either partly or wholly) to these customer and competitive pressures, many companies have been introducing a range of quality initiatives.
Analogous to the concept of zero defects in the manufacturing sector, service quality researchers have suggested the concept of flawless performance in service encounters. Services are also marketing offerings, but in a unique way: the marketing objects of services are “immaterial”. Unlike products where quality can be implemented via “mechanical” or “hard” standardization, in the case of services, flawless performance at a reasonably high customer satisfaction is rather an uphill end to accomplish. In the case of banks, many top executives once strategized that automated teller machines and then the Internet would spell the demise of the branch and the service staff. They are being proved wrong. People do plenty of banking at ATMs and online, but they still need brick-and-mortar structures and face-to-face contact. Technological innovations have revolutionized the way people do banking but, of late, disillusionment with technology as supplementary to traditional components of competitive advantage is evident everywhere.

Tangible competitive forces used to describe the banking industry, but not any longer. An application of the theory of competitive advantage had until sometime back yielded barriers to entry, few substitutes, and few competitors as the dominating competitive forces shaping the banking phenomena. Present day banking sees an exorbitantly high bargaining power of the banking customer, while that of the bank is at an ever low. Today in the banking industry the entry barriers are almost absent. Exogenous innovators might come from unexpected quarters and may even disintermediate the traditional
banks way banking continued to be done. This possibility is increasingly being explored by a new breed of e-entrepreneurs: a very major component of almost every service is information; available, codifiable, and transferable as explicit knowledge. And in this way, almost every service sector is gradually merging with the grand information industry. In the medium- to long-run, functional attributes such as product, service or channel attributes, price, speed, accuracy, etc., become essentials for mere endurance but do not guarantee the competitive leadership that is much sought after. For instance, product differentiation as a strategy is very tricky for banks, since most of the products sold in the retail banking are constrained by legal or industry regulations (agreed, however, that these are coming down to the minimal) and, in any case, are quickly imitated. It is to be noted that competitive advantage does not lie in easily imitable (explicit) capabilities: in banking, which has grown into a strong buyers' market now, innovations should do more than save time and money and probably target the customer's emotional well-being too. Soft targets such as fulfilling emotional needs cannot be achieved if the service staff holds the attitude of a passive mechanist. Traditional banks are today fortifying themselves with their historically assimilated evolutionary wisdom and logic. Properly employed, this is by and large an inimitable (tacit) competitive advantage that exogenous players cannot harness so easily. New age bankers can program and automate only the explicit component of knowledge and their historicity handicaps them in competing head on with the
traditional players who are rich with layers of tacit wisdom. Even so, this prescription is not to de-emphasize in any way the need for incorporating elements of technological innovations into the competitive strategy of the traditional banks.

No matter how sophisticated the technology employed, the decor, or the amenities available, a hospitality establishment (which banks are ever closer to becoming) will be judged, more often than not, on the performance of its employees, and in particular, those in the frontline. Put in another way, the most significant of the seven Ps of marketing in the context of the twenty-first century banking service is people. Human capital is among the most major drivers of service performance. The quality of service is determined by the ability and willingness of an employee to willfully and emotionally take part in the concert of service production. Employee satisfaction may be indirectly affecting the underlying drivers of customers' value perceptions about the overall quality of the product and the reliability of the firm, thus giving clues to future transaction behavior as well as relationship building.

3.4 SERVICE EMPLOYEES AS DETERMINANTS OF SERVICE QUALITY

It is evident throughout the quality literature that the employee's role is significant in the quality of manufactured products and in this ever rising trend of offering the best to the customer the employee's role and behavior take on
even greater importance in service delivery. This is partly because of the presence of the customer within the “production factory”, and the necessity of a high level of contact between customer and service employee, in the delivery of many types of service. This necessity for contact does not diminish, despite the introduction of technology in service delivery or the tendency of mature services to evolve more controllable forms which reduce the amount of contact between employee and customer. New services continue to emerge in response to requirements for a high level of customization, achieved through intensive use of labour in their delivery. Also, when face-to-face encounters between customer and employee become less frequent it can be more important to “capitalize” on the few occasions when meetings do occur, particularly as these infrequent face-to-face encounters may be occasioned by failure of the routine system and, hence, be even more sensitive to good or to poor execution.

The control of employee attitudes and performance in service organizations is an approximate equivalence to product quality control in manufacture. The service firms depend on customers gaining favorable impressions as a result of services which are well performed. To be able to do a good job, the service personnel who are in customer contact need not only to be well trained, but also to be happy about their work. These considerations need the bank management to pay attention to employee’s individual development, fair
treatment procedures for handling disputes, and career progression programmes.

There is a growing need to pay attention to employees. The use of marketing philosophies and tools in exchanges between employees and company has given birth to the concept of “internal marketing” which regards providing jobs that satisfy the needs and wants of employees as the internal equivalent of products. Similarly, employees can be considered as internal customers. In this changing competitive scenario the use of the equivalent of market research, market segmentation, and advertising, within the organization can:

- provide information about supervisor effectiveness as well as employee preferences;
- help to pay attention to individual needs;
- shape expectations and provide a motivational stimulus.

These issues are probably becoming more important as services evolve into larger organizations, and are particularly relevant in the banks. In the smaller service firms, which are still the major employers, it may also be desirable to supplement informal methods, and personal relationships. High performance service companies are using internal marketing ideas to develop what he called an internally directed service vision. The health of the enterprise is dependent on the degree in which employees share common values, and how well employees are served by the company’s activities. Company health in
this respect is, he said, manifest in low employee turnover, loyalty and productivity gains.

Another dimension is that customer retention has the potential to be a potent marketing management goal. The concern today is to help banks discover how customer retention could benefit them. Researchers have claimed that a 5 per cent increase in customer retention rate increases the net present value of customers by between 25 per cent and 85 per cent in a wide range of industries from credit card to insurance brokerage and from auto services to office building management. This proposition should be attractive to banks, especially if they have a poor record of developing and maintaining profitable relationships with their customers. In a typical financial institution, 20 per cent of customers contribute most of the profit. Other studies have reported that 20 per cent of a bank's customer base produces 90 per cent of bank profit. Customers from the remaining 80 per cent of the customer base, in this case, were either unprofitable or contributed a negligible amount of profit. Such a situation could have been attributed to a number of causes. This includes a high defection rate of customers, which according to literature tends to be much higher for new customers than longer tenure customers. Banks on an average can take six years to recoup the initial cost of acquiring their retail customers.
Indian banks have changed radically in recent years, from being providers of simple banking services, to vast groups selling a range of services from banking, insurance, loans, mortgages, business advice, asset finance and fleet services. Banks hold an extensive amount of data on their customers but struggle to share and use it effectively. Information about customers is the key to increasing sales and instituting profitable relationships, so banks need to organize these data, to easily differentiate their key customers and prospects and to grow relationships by offering relevant services and proactively developing relationships. By adapting internal process and culture to a customer-centric one that is shared across the group banks can vastly improve the way they manage customer relationships and the returns from one of their greatest assets.

3.5 SERVICE QUALITY & CUSTOMER RELATIONSHIPS

Delivering high quality services enhances customer retention rates, helps attract new customers through word of mouth advertising, increases productivity, leads to higher market shares, lowers staff turnover and operating costs, and improves employee morale, financial performance and profitability.

Excellent service quality is not an optional competitive strategy which may, or may not, be adopted to differentiate one bank from another: today it is
essential to corporate profitability and survival. Recent cost-accounting studies indicate that "quality costs" can consume between 30 and 50 per cent of sales revenue in service companies. The connection between service quality and corporate profitability is now seen to depend on high levels of customer satisfaction, the successful targeting of "quality" customers and the retention of those customers.

However, the connections are not straightforward or automatic. Attaining high levels of customer satisfaction by itself is not sufficient. Research has shown that between 65 and 85 per cent of customers who defect say they were satisfied. It is only customers who are "totally satisfied" that stay loyal, buy more and bring in new business through word of mouth referrals. So nothing less than total satisfaction of "quality customers" must be the goal of any firm in a competitive industry: "Complete customer satisfaction" is the key to securing customer loyalty and generating superior long term financial performance" Service quality is commonly noted as a critical prerequisite for establishing and sustaining satisfying relationships with valued customers. In this way, the association between service quality and customer satisfaction has emerged as a topic of significant and strategic concern.

Research in the area of services marketing has recently begun to address whether or not service quality differentially affects satisfaction depending on
particular service settings or situations. Although the idea that different quality/satisfaction processes operate under different conditions is fairly well accepted for tangible goods, but this notion remains largely untested for services. Accordingly an interesting aspect unexplored in the Indian context is the potential moderators of the service quality/satisfaction/loyalty relationship in order to more accurately explain and predict the effects of service quality on customer satisfaction. It will be fruitful to find whether the loyalty customers display is true or spurious, in the sense that whether customers remain with the bank because they have a favorable attitude for the bank and are satisfied with the services or the loyalty is spurious and the intention to remain with the bank is on account of location proximity or the risk involved in changing the banking service provider or the time involved in finding the right kind of bank that would satisfy. Technological competitiveness does not remain for long as it can be duplicated very easily, but the human aspect of service delivery called the physical evidence, processes and the provider have attained significance in this era of competition.

The challenge that marketers face today is how to retain satisfied customers, who often listen to and consider other suppliers when new opportunities knock at their door. When customers find little or no difference in products and services, they can be easily snatched away by another service provider.
Since a loyal customer perceives differences between your brand and its competitors, developing satisfaction with service offerings becomes crucial in building loyalty. Differentiating a brand through poor performance does not lead to satisfaction or loyalty. Loyalty is built through a positive differentiation that is usually achieved by providing superior customer service. High external service value leads to customer satisfaction, which ultimately leads to service loyalty. A firm that continuously monitors the satisfaction of its customers can improve its services by listening to the evaluations of customers.

Success will belong to those institutions which ensure that their employees build and maintain long-term relationships with the customers who set expectations and standards. The keys to this success are understanding what their customers really want and meeting - or exceeding - their expectations.

The building of relationships is particularly important for service companies. For example, a restaurant can provide fabulous food to its customers who still may experience overall dissatisfaction if the waiter/waitress provides poor service. Similarly, an airline could transport consumers and their luggage in a timely manner, but still leave customers with a negative attitude because of poor service by flight attendants or ticket agents. Employees of service organizations must be aware of the effect they can have on a customer's perception of service quality and satisfaction.
In this research, we argue the importance of the role of job satisfaction of customer-contact employees in relation to the service quality delivered to customers. We believe that partial examinations of the simple bivariate links between any of the constructs and behavioral intentions may mask or overstate their true relationship due to omitted variable bias. In order for a more pragmatic picture of the underlying relationships that exist among these variables to emerge, an investigation of a more collective model is needed. Following this view, this study has postulated a fourth competing model based on the literature cited previously. However, unlike prior studies we suggest that all three variables directly lead to favorable behavioral intentions simultaneously. We expect this model to outperform the three competing models by exhibiting a better fit to the data and accounting for a greater share of the variance in consumers' behavioral intentions.

Anderson and Fornell (1994) indicate that the literature is not very clear about the distinction between quality and satisfaction. Rust and Oliver (1994) suggest that customer satisfaction or dissatisfaction – a “cognitive or affective reaction” – emerges as a response to a single or prolonged set of service encounters. Satisfaction is a “post consumption” experience which compares perceived quality with expected quality, whereas service quality refers to a global evaluation of a firm's service delivery system (Anderson and Fornell, 1994; Parasuraman et al., 1985). Using experimental design and qualitative
techniques, in one of the few empirical studies of this relationship, Iacobucci et al. (1995) conclude that the key difference between service quality and customer satisfaction is that quality relates to managerial delivery of the service while satisfaction reflects customers' experiences with that service. They argue that quality improvements that are not based on customer needs will not lead to improved customer satisfaction.

According to Dick and Basu (1994), Anderson and Fornell (1994), and Rust and Oliver (1994) "quality is one dimension on which satisfaction is based."

We view service quality as an antecedent to satisfaction. Customer satisfaction depends on preexisting or contemporaneous attitudes about service quality and improved service quality will result in a satisfied customer.

Zeithaml et al. (1996) suggest that a customers’ relationship with a company is strengthened when that customer makes a favorable assessment about the company’s service quality and weakened when a customer makes negative assessments about the company’s service quality. They argue that favorable assessment of service quality will lead to a favorable behavioral intentions like “praise for the company” and expressions of preference for the company over other companies. Dabholkar et al. (1996) suggests that service quality is associated with likelihood of recommending a product or service.
some earlier studies that attempted to link customer satisfaction (a similar construct to SQ perceptions) to customer retention in the retail sector with little or no switching barriers, found a significant non-linear relationship between the two constructs (e.g. Jones and Sasser, 1995; Mittal and Kumar, 1999). Therefore, in the absence of switching barriers, a non-linear association between Service quality perceptions and customer retention too could be a plausible proposition. However, being consistent with past research, the current study hypothesizes a linear association between Service quality perceptions and customer retention.

There is increasing recognition that the ultimate objective of customer satisfaction measurement should be customer loyalty. Fornell (1992) argues that high customer satisfaction will result in increased loyalty for the firm and that customers will be less prone to overtures from competition. However, the ability of customer satisfaction scores to predict such loyalty has not been adequately demonstrated. Anderson et al. (1994) express the fear that if firms are not able to demonstrate a link between customer satisfaction and economic performance, then firms may abandon the focus on customer satisfaction measurement. There is some evidence to support the contention that customer satisfaction translates into higher than normal market share growth. Grant (1998) reports that the American Customer Satisfaction Index studies find a positive correlation between customer satisfaction and stock market returns. Fornell et al. (1996) also offer some evidence of the linkage between
customer satisfaction and loyalty. Anderson and Fornell (1994) point out that customer loyalty is determined to a large extent by customer satisfaction.

Empirical support for the price perceptions – customer retention link in the service sector is scant. Indeed, one of the few exceptions is the recent study conducted by Varki and Colgate (2001). Their review illustrated that given the importance of price perceptions, surprisingly little work has been done on the impact of price in the service sector and they argued the need for future research to focus more on this link. Based on a survey of the banking sector, they found evidence to support a direct positive association between price perceptions i.e. the belief that the prices charged by the bank are reasonable and customer behavioral intentions.

Another aspect that leads to repurchase behavior is satisfaction which is postulated to lead to increased likelihood of recommending, repurchasing, and loyalty. Satisfaction is positively associated with repurchase intentions, likelihood of recommending a product or service, loyalty, and profitability (Anderson and Fornell, 1994; Anton, 2000; Bitner, 1990). For example, Rust (1993) found that greater customer satisfaction resulted in a greater intent to repurchase. Dissatisfaction has been seen as a primary reason for customer defection or discontinuation of purchase.

Marketers have been urged for nearly two decades to shift their thinking away from isolated transactions, and instead to pay close attention to the creation
and nurturance of these relationships, and particularly to the development of
loyalty in customers (Reichheld 1996). The loyalty referred to here is not
behavioral loyalty (repurchase or re-patronization), but rather, emotional
loyalty i.e. the desire on the part of the customer to continue the relationship
even if competitors lower prices, willingness to recommend to friends, and
intention to continue to patronize (Dick and Basu, 1994; Zeithaml, 2000). This
construct, sometimes called “customer equity is the customer’s end-state that
should lead to repurchase or re-patronization, willingness to expand
purchasing beyond the initially-purchased line of services or products,
indifference to competitor’s appeals, lower price-sensitivity, positive word-of-
mouth, and other serendipitous effects on a customer’s individual lifetime
profitability and the overall profitability of the firm. Loyalty is explained by
the customer’s satisfaction with service, the firm’s image as a stable and
responsible service provider, the satisfactory or unsatisfactory nature of the
firm’s complaint-handling, communication between the firm and the
customer, and the customer’s trust of the service provider. The effects of
customer satisfaction on loyalty have been well conceptualized and well-
researched (e.g. Oliver, 1999). Customer satisfaction can be thought of as a
basis for loyalty, but hardly the whole story. Satisfied customers frequently
switch, but there is something else that keeps satisfied customers coming back
instead of switching away when competitors advertise, promote, offer
discounts, and so forth. There is something else that keeps customers coming back even when there is an occasional service failure, trust and image.

According to Jacoby and Kyner (1973), brand loyalty is the biased (i.e. non-random) behavioural response (i.e. purchase), expressed over time, by some decision-making unit, either on the part of an individual, family or organization, with respect to one or more alternative brands out of a set of such brands, which means that it is necessary to distinguish between exclusivity and loyalty and a function of psychological processes which involves the evaluation of different alternatives using specific criteria. Similarly, Oliver (1999, p. 35) defines loyalty as a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior.

Jacoby and Chestnut (1978) have explored the psychological meaning of loyalty in an effort to distinguish it from behavioural (i.e. repeat purchase) definitions. Their analysis concludes that consistent purchasing as an indicator of loyalty could be invalid because of happenstance buying or a preference for convenience, and that inconsistent purchasing could mask loyalty if consumers were multi-brand loyal.
Therefore, loyalty is a concept that goes beyond simple purchase repetition behaviour since it is a variable which basically consists of one dimension related to behaviour and another related to attitude, where commitment is the essential feature (Day, 1969; Jacoby and Kyner, 1973; Berne, 1997). In the retail banking market, the length of relationship between bank and customer is a common feature. The tradition of the industry has been for banks and other financial services organisations to engage in long-term customer relationships. In agreement with Stewart (1998), the reasons for such relationship longevity are open to interpretation. While genuine preference and loyalty may have been instrumental, so also could ignorance, inertia and dependence.

Another brand loyalty antecedent is known as switching costs, which can be defined as the technical, financial or psychological factors which make it difficult or expensive for a customer to change brand (Selnes, 1993). According to Alet i Vilagínés (1994). When the costs of switching brand are high for the customer, there is a greater probability that the customer will remain loyal in terms of repeat purchase behaviour, because of the risk or expense involved in switching and because of the accompanying decrease in the appeal of other alternatives (Wernerfelt, 1991; Selnes, 1993; Klemperer, 1995; Ruyter et al., 1996; Antón Martín et al., 1998). However, if loyalty is defined as true loyalty, the relationship between this construct and the
switching costs is not so simple. For example, it might easily be that the customer repurchases, but due to his dissatisfaction, he does not recommend the product or service to others. Moreover, the effect of switching costs on loyalty varies with the type of industry, the category of the product and the characteristics of the customer (Fornell, 1992).

A step in understanding the importance of internal marketing and stressing the need to keep the staff at the bank satisfied stems from the argument that a satisfied employee will create a satisfied customer and this would result in the customer retaining his/her services with the bank as he/she would experience a moment of truth during the service encounter that would leave a pleasant or unpleasant impression on his/her mind depending upon how the employee interacted with him/her.

The most important outcome of the conceptual work on the job satisfaction–performance relationship as outlined by Wilson, A. and Frimpong, J. (2004) is the view that service organizations cannot ignore employee satisfaction in their attempt to deliver quality services. Though the positive benefits of employee satisfaction may not always be reflected in quantitative outputs, there is strong empirical support for its value to organizational effectiveness and customer perceived service quality. Thus, it is important for service organizations and their managers to pay keen attention to the satisfaction of their internal customers.
According to the dual theory of job satisfaction (Herzberg et al., 1959; Herzberg, 1966, 1968), the job satisfaction construct can be categorised into two distinct dimensions, variously termed context or hygiene and content or motivator elements which cause satisfaction and dissatisfaction. The study proposes that only content elements account for satisfaction while context elements only affect dissatisfaction if absent but do not themselves cause satisfaction. Given that job satisfaction is linked to employee motivation to perform or behave in specific way, the dual theory may suggest that content and context satisfaction may also relate differently to service performance quality. However, there has been mixed support for this theory. While some studies suggest context satisfaction does not contribute significantly to overall satisfaction (Schwartz et al., 1963; Weissenberg and Gruenfeld, 1968), others indicate both content and context satisfaction equally explain satisfaction, and therefore, the motivation behind performance (Schneider and Locke, 1971; Locke, 1973).

In light of the complexity of the job satisfaction construct, this paper contends that it is not enough for service managers to be merely told that it is critical. It is also important for further insights to be given on which specific elements of job satisfaction may be more predictive of service-oriented behaviours among different classes of service employees. This is deemed a critical gap which needs further exploratory studies.
There are also other theoretical bases for expecting context and content satisfaction to predict service-oriented behaviours differently. First, according to the theories of equity and social exchange (Blau, 1964; Adams, 1965), a person is more likely to reciprocate the good deeds of others. Thus, it is expected that where employees are satisfied with management and colleagues, there would be a higher likelihood of their exhibiting a more helpful and cooperative attitude to coworkers than otherwise. Similarly, the attitude-behaviour theory suggests that attitudes which relate to an object (service performance or behaviour, in this case) will predict behaviour or performance better than attitudes which are not directly related to the object (Ajzen and Fishbein, 1977). Therefore, a further proposition could be advanced that context job satisfaction which does not directly correspond to the object of service performance quality will be less predictive of employee service oriented behaviours and service quality perceptions to customers than content satisfaction. This view is further strengthened by the fact that employees are usually bound by agency contract to serve customers, and thus may be constrained in the extent to which dissatisfaction with context elements of work could affect their relationship with external customers. On the other hand, it is expected that content satisfaction, particularly with customers, which relates to the object of service performance quality, would be a better indicator of service-oriented behaviours and hence service quality perceptions to external customers.
In light of the foregoing controversy regarding the motivational role of various dimensions of job satisfaction, a further enquiry about how context and content elements may explain qualitative service performance is deemed important for further development of literature and management practice.

In line with the foregoing, the new model suggests a broader conceptualisation of satisfaction which captures specific aspects of a service job which not only taps content context elements, but also includes dimensions deemed to be important to boundary spanners (Churchill et al., 1974). According to Churchill et al. (1974), the interactive nature of the service delivery process means that employee-customer interactions should be considered an important facet in evaluating the job satisfaction of employees who interact with external customers.

This study has been undertaken in the retail banking sector which comprises of public sector, private sector and foreign banks. An interesting thing to ponder would be to find out whether the service quality perceptions differ amongst the three groups of banks or not.
EJS - Employee Job Satisfaction
SQ – Service quality perceptions
C.SAT – Customer satisfaction
BI – Behavioral Intention (word of mouth recommendation, repurchase intention)

The effect of job satisfaction on customer satisfaction has been unexplored in the area of service marketing literature and specifically in the banking industry which is fast growing and a significant contributor to the growth of the economy as a whole and also a provider of jobs to many. Until now the work has been focused on the various aspects of customer satisfaction and how could one enhance this satisfaction with various intervention of quality and benefits. What is proposed in this research is to find out the relationship
of job satisfaction of employees on the customer satisfaction. This brings into light the aspect of internal marketing that let us first look at our employees and treat them as our first customers and satisfy them, leading us to satisfied customers being served by satisfied employees.

3.7 HYPOTHESIS

Based on the above discussion and the review of literature the following hypotheses are proposed.

H1: Service quality expectation and perceptions will differ amongst the customers of the three groups of banks.

H2: Service quality perceptions will have a positive effect on customer satisfaction.

H3: Service quality perceptions and level of repurchase intentions have a positive relationship.

H4: Customer satisfaction and repurchase intention are positively related.

H5: The better the perceptions about the reasonableness of price, the greater the level of repurchase intentions.

H6: The greater the perceived switching costs, the greater the customer loyalty.
H 7: When customers perceive employees to be satisfied they are likely to be satisfied.

H 8: When customers perceive employees to be satisfied they are likely to retain their services with the bank.

H 9: There will be difference amongst the job satisfaction of employees amongst the three groups of banks.

H 10: Context job satisfaction factors (i.e. satisfaction with pay, supervision, & security) will be more predictive of overall employee satisfaction than content job satisfaction factors (i.e. satisfaction with work, customer interaction, promotion).

H 11: Overall job satisfaction of employees will have a positive impact on (is positively correlated with) customer perceptions of service quality.

H 12: Overall job satisfaction of employees will have a positive impact on (is positively correlated with) customer satisfaction.

H 13: Overall job satisfaction of employees will have a positive impact on (is positively correlated with) delivering customer service.