CHAPTER I
INTRODUCTION

1.1 Introduction to the Study

Marketing of service firms require the development of brand experiences and unique imagery leading to the critical role of brand building in service firms. A strong brand scores high on brand awareness, brand service quality perceptions, and customer satisfaction. Brands communicate their brand name, functional benefits, inherent values and cues on brand experiences to customers which lead to strong customer based brand equity for the firm. The external orientation in branding focuses on building strong brand equity among customers. Developing employee based brand equity has gained momentum in service branding literature as employees play crucial role in facilitating brand experiences, perceptions and relationships that customers may have with the firm. The internal brand orientation focuses on building a strong brand orientation enabling employees to understand and imbibe the brand values of the firm. Competitors can copy the performance of the service brand but the intangible values such as employees’ attachment, trust and commitment towards the brand, customers’ trust and loyalty and the unique, favorable association towards the brand cannot be copied. This thesis outlines how service brand strength can be measured by assessing the internal brand strength (employee perspective) and the external brand strength (the customer perspective) individually and provides a methodology for the same by undertaking a study on banks in India. A strong service brand enjoys strong external as well as internal brand equity.

India was selected for the study as it is an emerging market economy where the growth opportunities are considered to be large (Jin et al., 2010). Moreover the Indian service sector has grown considerably during the last few years and has been globally recognized for its high growth and development. According the Central Statistic Office (CSO), the services sector contributed 55.2 per cent to the gross domestic product (GDP), growing annually at 9% during 2010-11. Hence, India was selected for the study.
Banking sector was chosen for the study as it is classified as pure service (under section C of Service Classification by Central Statistic Office). Moreover, the competition in the Indian banking sector is increasing after the liberalization of the economy in 1991. Liberalization has also intensified competition in the banking sector after the new guidelines were issued by the Reserve Bank of India (RBI) in 1993. In the post liberalized era, the Indian customers have a wide choice of banking service providers in the market and the more knowledgeable and discerning among them tend to opt for the best in terms of quality and reliability and which are at par with international standard (Selvaraj, 2009).

New players have adopted modern technology and international best practices, which offer wide product range to corporate and retail customers. Further, liberalization will allow entry of many more reputed foreign banks, bringing in strong corporate governance, leading-edge technological expertise, and experience in providing retail banking services in other developed economies and the global economy as a whole (Canadian services coalition, 2007). As it is difficult to create differentiation in the services offered by banks and as services can be easily copied, it becomes difficult for banks to differentiate themselves from their competitors (Devlin et al, 1995; Coskun and Frolich, 1992). As the banking sector is witnessing high competition in India, a study on services branding is appropriate and relevant for this sector.

1.2 Brand Management

Branding of a product or service ensures legal protection for the brand name and offers differentiation in comparison to the competitors’ offering in the market place. In markets where competition is rare, goods can be sold as commodities and the name of the maker may not matter much. However situation is different in highly competitive markets, where competitors are vying for the attention of customers with similar product offerings and it is difficult to create product differentiation. Differentiation created through functional advantages also can be easily copied by the competitors. As substantial product differentiation is difficult in financial services, it
is very critical that they are branded (Berry, 1995; Saunders & Watters, 1993). As each of the benefit offered by a bank can be easily copied by a competitor, branding becomes essential for service differentiation. Unlike products, services are highly intangible, so it becomes crucial that desirable image is created (Onkvisit & Shaw, 1989). Unique image, based on salient attributes can transform a commodity into a branded service. While commodity is an undifferentiated product, product is a value added, differentiated commodity. Branding assures buyers of uniform service quality and gives the marketer the price advantage. As banking is a pure service, it is critical to have a clear brand identity so that customers can differentiate each service provider in his/her mind space. Berry (1987) proposed leveraging the freedom factor of custom-fit which is a result of the service provider and the customer entering into direct contact. It is people service that differentiates one bank from the other. Berry (1987) suggested that service organizations need to practice internal marketing, not just external marketing. “Internal marketing can be viewed as attracting, motivating and retaining qualified personnel (internal customers) through job products designed to satisfy their wants and needs” (Berry, 1987). Drawing on the comments of Berry, (1987), Saunders & Watters (1993) and de Chernatony & Segal Horn (2004), internal and external brand orientations were found to be important in services branding. Banks should ideally focus on building both internal and external brand equity by satisfying employees as well as customers.

1.2.1 Banking and Corporate Branding

Banks mostly follow the brand architecture style of “branded houses”, where every product from the bank carries the name of the corporate brand. Brand architecture of a firm refers to the structure in which brands are managed within a firm. There are two brand architecture styles which are named as “branded houses” and “house of brands”. In the “branded house” format, the brands from the firm carry the corporate brands name where as the in “house of brands” style, where the brands carry individual brand names and not the corporate brand’s name. FMCG products have mostly adopted the “house of brands” architecture where as service firms have adopted the “brand houses” architecture. In the branded house architecture, the
different services offered by the same firm will carry the name of the corporate brand. In the financial services arena, we have mostly witnessed the phenomena of corporate branding. The corporate brand name transcends its brand image to all service products offered by the bank. The corporate brand perspective supports, and could be a consequence of, the strategic view of brands. King (1991) is considered to be one of the first authors to make a clear distinction between product and corporate brands, emphasizing the importance of a multidisciplinary approach in order to manage them. Aaker (2004) defined a corporate brand as a brand that represents an organization and reflects its heritage, values, culture, people and strategy. Balmer and Gray (2003) recommended that corporate brands lead to the development of a new branch of marketing which should be known as “corporate-level marketing”. In other words, an organization’s core values must be the guiding light of the brand building process, both internally and externally. De Chernatony et al (2003), suggested that in comparison with the goods model for brand building, more work is required in terms of organizational culture and internal branding when building service brands. Successful services-branding models do not only stress an external orientation, as evident in goods branding, but have a balanced internal and external orientation (De Chernatony et al, 2003). Effective organizational brand are built externally as well as internally. Hence strong bank brands should have a branding orientation which creates strong employee based brand equity as well as customer based brand equity.

1.3 Brief History of Indian Banking

The evolution of the Indian banking industry is briefly discussed in this section to provide an understanding of the sector. Organized Banking in India originated in the first decade of the 18th century when The General Bank of India came into existence in 1786. This was followed by Bank of Hindustan. Both these banks are now defunct. The oldest bank in existence in India is the State Bank of India being established as "The Bank of Bengal" in Calcutta in June 1806. Foreign banks like Credit Lyonnais started their Calcutta operations in the 1850s. The first fully Indian owned bank was the Allahabad Bank, which was established in 1865. By the 1900s, the market expanded with the establishment of banks such as Punjab National Bank in 1895 in
Lahore and Bank of India in 1906 in Mumbai - both of which were founded under private ownership. The Reserve Bank of India formally took on the responsibility of regulating the Indian banking sector from 1935. After India's independence in 1947, the Reserve Bank was nationalized and given broader powers.

1.3.1 Nationalization

By the 1960s, the Indian banking industry had become an important tool to facilitate the development of the Indian economy. Government of India (GOI) issued an ordinance and nationalized 14 largest commercial banks with effect from the midnight of July 19, 1969. Within two weeks of the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, and it received the presidential approval on 9th August, 1969. A second dose of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the government more control of credit delivery. With the second dose of nationalization, the GOI controlled around 91% of the banking business of India. After this, until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy.

1.3.2 Liberalization

In the early 1990s the then Narasimha Rao government embarked on a policy of liberalization and gave licenses to a small number of private banks which included banks such as UTI Bank(now re-named as Axis Bank), ICICI Bank, IDBI Bank and HDFC Bank. This move, along with the rapid economic growth of the country, kicked-started the banking sector in India. All the three sectors of banks, namely, government owned banks, private and foreign banks saw steady growth during this period. With the relaxation in the norms for the foreign direct investment (FDI), a new wave was ushered in, which brought with it more sophisticated technology, wide variety of banking products and market orientation. The last decade has seen many positive developments in the Indian banking sector. The policy makers, which comprise the Reserve Bank of India (RBI), Ministry of Finance and related government and
financial sector regulatory entities, have made several notable efforts to improve regulation in the sector. The sector now compares favorably with banking sectors in the region on metrics like growth, profitability and non-performing assets (NPAs). Policy makers have made some notable changes in policy and regulation to help strengthen the sector. These changes include strengthening prudential norms, enhancing the payments system and integrating regulations between commercial and co-operative banks. All this led to the retail boom in the banking sector in India. People not just demanded more from their banks but also received more.

New players in the banking sector have adopted international best practices and modern technology which offer wider product range to corporate and retail customers. Further liberalization will bring with it many more banks which will usher in strong corporate governance, leading edge technological expertise, and experience in providing retail banking services in other developed economies and the global economy as whole (Canadian services coalition, 2007). More foreign banks are slotted to enter the Indian soil in the coming years.

1.3.3 Current Situation

Currently, India has 88 scheduled commercial banks (SCBs) - 28 public sector banks (that is with the Government of India holding a stake), 29 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 31 foreign banks with a combined network of over 53,000 branches and 17,000 ATMs. According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively. A large number of urban and rural co-operative banks and Microfinance institutions (MFIs) play a crucial role in extending banking services to small and medium enterprises, rural population and self help groups.

According to RBI report on trends and progress of the Indian banking sector 2008-2009, the Indian banking system has been relatively in good health. Balance sheets of
the banks appear healthy and little affected by the unsettled conditions in financial markets. The asset quality and soundness parameters of the Indian banking sector have improved significantly in the recent period. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region (RBI Report, 2009). The Reserve Bank of India is an autonomous body, with minimal pressure from the government. A few banks have established an outstanding track record of innovation, growth and value creation. This is reflected in their market valuation. Indian banks have compared favorably on growth, asset quality and profitability with other regional banks over the last few years. However, improved regulations, innovation, growth and value creation in the sector remain limited to a small part of it.

With the growth in the Indian economy expected to be strong for quite some time, especially in its services sector, the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong (RBI Report, 2009). Indian Banks are aligning themselves to BASEL II norms and IFRS Accounting standards. One may also expect Mergers and acquisitions (M&A), takeovers and asset sales.

The banking industry in India is witnessing high competition among private, public, foreign and co-operative sector players. Marketing of their services to end customers have been highly challenging for the banks in such a highly competitive situation. Branding offers differentiation to banks when faced with competition. As discussed earlier in this chapter competition demands differentiation among service providers and branding offers the same. Strong bank brands can leverage their brand equity advantage while marketing their services.

**1.3.4 Recent Initiatives of RBI on Customer Service**

In India, the banks face a challenge of providing services to a broad range of customers, which varies from sophisticated corporate firms and high networth
individuals to low-end borrowers, who are catered to by microfinance initiatives. Over time, a series of initiatives have been taken to improve the quality of customer service, including grievance redressal through the Banking Ombudsman Scheme, and setting up Customer Service Committees at various hierarchal levels within the banks, and setting up a Customer Service Department within the Reserve Bank. In spite of these initiatives, there are gaps in the implementation of guidelines which give rise to customer grievances. RBI stated that there is a specific need for improving the customer service by banks through measures like financial education, credit counseling and improvement in information dissemination. The recent initiative by the Reserve Bank regarding setting up of financial literacy cum counseling centres is a step in this direction. RBI report on trend and progress of banking in India 2008-2009, addressed the fair treatment of customers throughout the product life-cycle which comprises:

- Product design and governance;
- Identifying target markets;
- Marketing and promoting the product;
- Sales and advice processes;
- After-sales information; and
- Complaint handling.

RBI’s recommendation on offering valuable customer service reveals the protection of consumer rights of banking customers. Such initiatives from the regulator, sensitizes banks about the importance of ensuring customer satisfaction while offering services. Customer satisfaction influences the customers’ overall service brand verdict as validated in the study of Grace & O’Cass (2005) in banking services. The service brand verdict is the consumer’s decision regarding future service patronage/boycotting and results from the overall positive or negative disposition towards the brand (Grace & O’Cass, 2005).
1.3.5 Opportunities and Challenges in the Banking Sector

McKinsey report (2010) on Indian banking identified four challenges which must be addressed before success can be achieved. First, the market is seeing discontinuous growth driven by new products and services that include opportunities in credit cards, consumer finance and wealth management on the retail side, and in fee-based income and investment banking on the wholesale banking side. These require new skills in sales & marketing, credit and operations. Second, banks will no longer enjoy windfall treasury gains that the decade-long secular decline in interest rates provided, this will expose the weaker banks. Third, with increased interest in India, competition from foreign banks will intensify. Fourth, given the demographic shifts resulting from changes in age profile and household income, consumers will increasingly demand enhanced institutional capabilities and service levels from banks.

The third and the fourth challenges reported above are of importance to this study. The intensification of competition in the banking industry due to the entry of foreign banks has been reported as the third challenge which will demand efficient marketing and branding efforts for the players in the Indian banking industry. As a part of this study, the issue of the influence of the demographic variables of customers on their overall assessment of the bank brand and the verdict they have on them were analyzed.

1.4 Gap Analysis

Just like products, the effective marketing of services is very desirable. Unlike products, services are highly intangible so it becomes crucial that a desirable image is created (Onkvisit & Shaw, 1989). Further the intangibility of services poses difficulties in branding while comparing them to products. Hence intangibility of services makes branding extremely relevant but challenging in the case of services. Company name acts as a surrogate in the absence of tangible features leading to a thrust in corporate branding in services (Berry, 1987).
Though Berry (1987) had suggested that service organizations need to practice internal marketing, not just external marketing, the services branding research was mostly focused on end-customer oriented brand building activities (external branding) and very few researchers had brought in directions on building the external as well as internal brand for the holistic development of service brand. de Chernatony, Drury & Segal-Horn (2003), suggested that in comparison with the goods model for brand building, more work is required in terms of organizational culture and internal branding when building service brands hinting at the importance of the nature and orientation of organization in service branding. de Chernatony, Drury & Segal-Horn (2003) supported Berry’s (1987) view and suggested that successful service-branding models do not stress on external orientation alone, as evident in goods branding, but have a balanced internal and external orientation. Research done by de Chernatony, Drury & Segal-Horn (2003); de Chernatony, Drury & Segal-Horn (2004); de Chernatony, Leslie & Cottam (2009) focused on the importance of internal as well as external branding in services branding. People are the key resources in a service brand and they are ultimately responsible for delivering promises made to customers. Accordingly, they need a shared understanding of their service brand's values, along with strong commitment and identification, to encourage brand supporting behaviour (Vallaster and De Chernatony, 2005).

**Gap I :** Depiction and measurement of service brand as a combination of external and internal brand and its measurement is absent in the literature. This was identified as gap1 in this study. Hence the study proposed to develop a service brand model with external and internal dimensions to it to address this gap. Following paragraphs reviewed from literature support the identification of Gap 1.

From the previous discussion on branding, it is evident that the branding orientation in goods/product and services are different, hence models for product branding and services branding cannot be the same. In Chapter II, various branding models have been compared, which revealed that Aaker's (1996) brand identity planning model and Kapferer’s (1997) advanced hexagonal brand identity prism model fits the goods sector rather than the services sector. Davies (2000) proposed a four-phase brand asset
management model which could be useful in the services sector as it adopts both an external and internal orientation. Similarly, Gregory & Sellers (2002) suggested a four-step process for building corporate brands which can be applied to service branding. Both models (Davies, 2000; Gregory & Sellers, 2002) may be of relevance to service brands attributing to the similarities between building corporate and services brands. Berry’s services branding model (2000) and de Chernatony’s integrated service brand model (2003) are models dedicated to services brand building.

Berry’s (2000) model depicted the relationship among ‘the way the company has presented its brand’ (through advertising, service facilities and appearance of the service providers) and ‘the way customers absorb information about the company’ and their ‘customer experience’ leading to brand awareness and brand meaning which ultimately builds brand equity. This model does not focus on the internal brand as perceived by the employees. The external dimension of the brand also lack holistic measurement as it is limited to brand communication and customer experience. The model was conceptual by nature and did not provide a measurement scale.

de Chernatony’s Integrated services brand model (2003) proposed a strategic process to build service brands which depicted different stages such as, to identify the internal capabilities, to define the brand and develop the brand concept, to consider feasibility of the brand, to ensure internal commitment, to position and differentiate the brand, to structure organizational resources, to conduct market testing, to operationalise, and to identify external opportunities. This model offered a comprehensive strategic process but cannot be treated as a blue print for brand building as it does not indicate the dimensions of service brand and does not offer any measurement mechanism.

Grace and O’Cass (2005) developed and tested their model named as Service Brand Verdict (SBV) on consumer’s verdict on services brands on dimensions such as core service, employee service, brand name, servicescape, and price/value for money, self-image congruence and feelings, customer satisfaction and brand attitude. The study proved that brand evidence which comprise of the factors outlined above influence
brand verdict. Brand verdict is the consumer’s decision regarding future service patronage/boycotting and results from the overall positive or negative disposition toward the brand which can be measured with a series of items which are specified in Chapter III, Theoretical Framework. SBV model is identified as a good measure for external service brand but cannot be considered as a holistic measurement for service brands as it lacks the internal orientation.

**Gap 2: Absence of a measurement of internal branding in services was identified as a gap in this study. The following literature support this gap.**

MacLaverty, McQuillan and Oddie (2001) defined internal branding as a set of strategic processes that align and empower employees to deliver the appropriate customer experience in a consistent fashion. Most of the internal branding literature was focused on defining the internal branding and its importance in the service branding process (MacLaverty, McQuillan and Oddie, 2001; Mosley, 2007; Punjaïsri, Evanschitzky and Wilson, 2007). Some studies have provided empirical evidence for the link between internal branding and employees’ brand commitment (Burmann and Zeplin, 2005), some have focused on the relationship between internal branding and employees’ brand loyalty (Papasolomou and Vrontis, 2006) and others have focused on the influence of internal branding on employees’ brand-supporting behaviours (De Chernatony and Cottam, 2005; De Chernatony and Segal-Horn, 2001; Kotter and Heskett, 1992). Mahnert and Torris (2007) studied the development of internal branding and King and Grace (2008) have suggested a model called employee brand commitment model. However a measurement of internal branding based on the perceptions of employees on the various aspects of their organizational brand could not be identified in literature.

**Gap 3**

**The reviewed literature on branding pertaining to Indian banks revealed that a study on holistic bank brand measurement which encompasses the internal and external dimension of the bank brand was found to be absent.**
Most of the studies in the financial service branding have focused on corporate branding (Quelch, 1999) or service quality (Zeithaml 1997; Roselius 1971; Ennew and McKechnie 1998; Bharadwaj 1993; Veloutsou, Daskou and Daskou, 2004; Krishnaveni and Prabha, 2006; Vanniarajan, 2007) or brand loyalty and its related dimensions such as trust and relationship banking (Ennew & Sekhon, 2007; Petruzzellis et al, 2010; Farquhar, 2010).

Bank marketing studies in India have covered consumer perception towards technology advances (such as internet banking, self service technologies (SST) in service delivery and retail banking (Natarajan etal, 2010; Nagar et al, 2011)

Saravanan and Rao (2006) emphasized the concept of total quality management in the service sector in India. A study conducted by Selvaraj (2009) on Total Quality Management (TQM) across public, private and foreign sector banks in India were dimensions such as Top management commitment, HR activities, and Employee Satisfaction, Servicescape along with other technically relevant TQM dimensions and its influence on Total Quality Service. Overall service brand dimensions (with internal and external orientation) were not studied as the focus was on Total Quality Service.

Rai (2009) conducted a study comparing the service quality of between a leading public sector and private sector bank and reported low scores in customer satisfaction for both types of banks. He recommended that improvement in areas such as overall management, employee behavior and policy framework so that high scores can be achieved in customer satisfaction.


More studies are required on the measurement of service brand factors and its influence on brand evaluation of employees and customers. Hence it was decided to conduct a study on employee and customer evaluation of banking services to
understand the impact of internal and external brand evaluations on overall banking service brand in India.

1.5 Need for the Study

In a highly competitive marketing environment, it is very important that banks differentiate themselves from each other. The product and services of banks can be easily copied. Banking services which are mostly intangible require creation of desirable image in the minds of customers which can be done by developing unique brand identity.

In the services literature, banking is classified under “pure service”. The equity of the bank brand decides how far the brand factor has contributed in successfully marketing the bank so that the bank brand achieves unique, favorable and strong positioning and customer acceptance.

This study measures the influence of internal and external brand on employee satisfaction and customers’ brand verdict respectively. The strength of the internal brand is measured thorough employees’ perception of the bank; the external brand is measured through customers’ perception of the brand.

Such a study is relevant in the services sector, especially in the banking sector, which did not have adequate brand strength measurement methodology that measures both the external and internal orientation, though authors such as De Chernatony (2003) and Berry (1987) cautioned about such orientations in their published work.

The study revealed internal factors which constitute a strong internal brand as well as external factors which build a strong external brand. Such a study was the need of the hour as Indian banking industry had taken up strong branding initiatives in recent years and would compare the brand building activities of private, public sector and foreign banks.
Indian banking sector can be broadly classified into (a) public sector (b) private sector (c) foreign banks and (d) co-operative banks. Co-operative banks in India are mostly regional/local players. Hence, in the national scene, private, public and foreign banks compete with each other. Hence this study on service branding of banks focuses on public, private and foreign banks.

Overall internal and external brand evaluation of banks belonging to these three categories was studied. Employee’s satisfaction and customer’s brand verdict have been taken as indicators of well marketed banks. Many variables such as the age of the bank, number of branches, promotional budgets etc along with branding activities may influence the marketing of the banks. However, the scope of this study is limited to branding of banking services; hence other variables influencing the marketing of banking services were not included in this study.

Based on the gaps found, the following research problem has been formulated.

1.6 Research Problems

1. To understand the influence of internal and external brand factors on employees and customer’s evaluation of banking services in India.

2. To compare the perceptions of private, public and foreign bank employees on internal branding of their banks in India.

3. To compare the perceptions of customers of private, public and foreign banks on external brand dimensions of banks in India.

1.7 Objectives of the Study

1. To create a service branding model for banks.
2. To identify drivers for strong service brands.
3. To reveal and validate factors which constitute internal and external brands for banking services brand.
4. To understand whether demographic profile of customers lead to a differentiation in their perception across different types of banks in India (public sector, private sector and foreign banks).

5. To understand whether the perception of bank employees are different across the three types of banks (public sector, private sector, foreign banks).

**1.8 Benefits of the Study**

This study provides a methodology for measuring the brand equity of banks. The internal brand equity measurement has revealed factors which can be acted upon to create strong service brands leading to employee satisfaction and enabling employees to deliver the brand promise and ultimately customer satisfaction and increased profitability for the bank. The study also provides a comparison among public sector, private sector and foreign banks in terms of their employee satisfaction, customer satisfaction, and customers’ verdict about the their services and whether it offers unique benefits.