

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

This introductory chapter provides a background of study by discussing current issues facing the retail banking industry. This is followed by a brief discussion of customer value perception and service loyalty which are key concepts related to the study. Subsequently, the rationale of the study which includes the problem statement, research questions, research objectives and contribution of the study are also presented. Finally, this chapter ends with the organisation of the remaining chapters in the report.

1.2 BACKGROUND OF THE STUDY

The rapidly changing financial landscape and increasingly competitive business environment have seen the local market flooded with various financial products and services. In addition, with new players waiting to snatch a slice of the growing financial pie amidst the financial sector liberalisation, there is a growing concern among commercial banks on how to retain and build customer loyalty especially among individual (retail) consumers (Asian Banker Research, 2010).

The need is even more apparent among banks that are currently the main banker for their customers as there is a growing trend for customers to diversify their banking relationships (Ernst and Young, 2010); resulting in the

lack customer loyalty. Furthermore, as the banking divide among banks in terms of infrastructure and operational capabilities are closing in, retail banks may need to formulate new strategies to build customer loyalty.

1.2.1 Customer Value Perception

Past research has shown that customer's perceived value is essential in influencing customer loyalty (Cronin, Brady and Hult, 2000; McDougall and Levesque, 2000, Chen and Hu, 2010). Companies must be seen to provide amongst others, superior level of service (Bick, Brown and Abratt, 2004) and deliver competitive bundle of benefits or value that customers deem as crucial (Devlin, 2000).

However, with limited resources and capabilities, coupled with the fact that different customers have different needs, it would seem impossible for banks to cater to every customer need. As such, organisations may need to strategise around competitive strategies according to their available resources and capabilities to focus on selected customer segment.

1.2.2 Value Disciplines

The concept of value disciplines is an extension of the three generic strategies developed by Michael Porter in the 1980s (i.e. cost leadership, focus and differentiation) which was criticised to leave a viable middle ground that is untapped if organisations choose to focus on one or a combination of the generic strategies (Millar, 1992). Hence, Treacy and Wiersema (1993) introduced the concept of customer value disciplines which calls for organisations to focus on delivering superior value based on either

operational excellence, product leadership or customer intimacy but at the same time ensuring that the other two value disciplines that are not chosen, are continued to be delivered within industry standards. By doing so, organisations would be able to gain and sustain market share ahead of their competitors (Treacy and Wiersema, 1993). The value disciplines are further discussed below.

Operational excellence is essentially the ability of an organization to provide customers with reliable products and services at competitive prices and delivered with minimal difficulty and inconvenience (Treacy and Wiersema, 1993). Organizations that pursue this strategy constantly seek ways to minimize overhead costs and to optimize business processes across functional and organizational boundaries.

Product leadership on the other hand, refers to the ability of an organization to offer customers with leading edge products and services that consistently enhance the customer's usage or application of the product (Treacy and Wiersema, 1993). Under this strategy, organisations would be able to increase product utilisation and render other rivals' goods obsolete.

The 3rd value value discipline takes on an approach to segment and target the market by tailoring offerings to match the demands of the niche market (Treacy and Wiersema, 1993). Market leaders focusing on customer intimacy typically look at the customer's lifetime value and not just the value of a single transaction as they continue to pre-empt and customise solutions that meet their customers' needs.

Research has shown that companies that champion either one of the value disciplines while meeting the industry standards in the other two would be able to deliver superior customer value and enjoy market leadership (Treacy & Wiersema, 1993). But how does these value disciplines influence customer's behaviour and whether there is any relationship between customer's perception of the value disciplines and their service loyalty especially in the Malaysian banking context is relatively unknown.

1.2.3 Service Loyalty

Customer loyalty (or service loyalty in reference to the studies of loyalty for services) can be defined in many ways. Dick and Basu (1994) defined customer loyalty as “the strength of relationship between an individual's relative attitude and repeat patronage towards a certain brand, service, vendor or store” while Gremler and Brown (1996) describes loyalty as “the degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service exists”.

The definitions of loyalty are varied and have evolved over time to encompass 3 broad dimensions i.e. behavioural, attitudinal and cognitive loyalty (Lu and Tang, 2001). The first dimension i.e. behavioural loyalty defines loyalty as a form of behaviour (Ehrenberg, Goodhardt and Barwise, 1990; Kahn, Kalwani and Morrison, 1986) such as repeated purchase towards a certain brand of interest. Meanwhile, the second dimension i.e. attitudinal loyalty looks at the commitment of the customer towards the

service relationship or to the service provider (Butcher, Sparks and O'Callaghan, 2001; Lee, Park, Park, Lee and Kwon, 2005). The third dimension came about as although loyalty is being measured as a composite of behaviours and attitude, these measures look at post purchase behaviour and does not explain the cognitive portion i.e consumer's conscious decision-making process in the evaluation of alternative brands before a purchase is effected (Gremler and Brown, 1996). Thus, measuring loyalty from these three dimensions i.e. behavioural, attitudinal and cognitive components would provide a more complete picture (Gremler and Brown, 1996; Lu and Tang, 2001) of customer's service loyalty.

The benefits of service loyalty to service firms particularly banks are aplenty. Gronroos (1990) suggests that customer retention leads to lower sales and marketing costs as compared to selling to new customers. This is because it costs retail banks as much as 6 times more to attract a new customer as it does to retain an existing one (Ernst & Young, 2010).

Besides this, banks are also increasingly aware that building partnerships with their customers are important for long term profitability and survival (Chakravarty, Fienberg and Rhee, 2003) and survival necessitates that banks need to retain existing customers by preventing defections / bank switching. As such, it is important for banks to look into ways to engage customer loyalty.

1.3 PROBLEM STATEMENT

With growing financial literacy, customers these days are more financially savvy. Spoilt with choices and with the advent of technology, customers are known to shop around and to maintain at least few banking relationship eg. one for operating / salary account, credit card, hire purchase, mortgage loan, internet banking etc.

This growing phenomenon is a cause of concern as banks raced to secure their relationship with their existing customers. Afterall, it is more costly to acquire new customers than to maintain existing ones as recent surveys such as the one conducted by Ernst and Young (2010) in Europe indicates. Moreover, internally driven product innovation and quality improvement initiatives may no longer provide the basis for competitive advantage (Woodruff, 1997; Butz and Goodstein, 1996). With customers driven to purchase based on what the product is worth; it is important to have an accurate understanding of what customers value and would value (Anderson and Narus, 1998).

If in the past, focusing on one of the value disciplines such as operational excellence; enable banks to hold their position as a main banker, in today's environment embracing this strategy alone may not be sufficient or adept given that customers may require more personal touch or relationship building initiatives. Hence, a study of customer's value perception is necessary to gauge how Malaysian retail banking customers' perceive their main bankers to be and to understand which strategy relates closely to their service loyalty.

1.3.1 Research Questions

Based on the problem statement above, this research serves to answer the following questions :

1. What is the perception of retail banking customers about the value disciplines of their main bankers in Malaysia?
2. Do customers have higher expectation for certain value disciplines from their main banker?
3. What is the gap between customer's perception and expectation of main banker's value disciplines?
4. Does retail banking customers have certain preference for value disciplines from their main banker?
5. What is the relationship between customer's perception of their main banker's value disciplines and their service loyalty?
6. Is there a difference in customer perception between a foreign and local main banker?
7. Does the type of bank or banking facilities influence customer loyalty?

1.4 CONTRIBUTIONS OF THE STUDY

This study attempts to replicate a similar value discipline perception study which was conducted by Bick et al. (2004) among retail customers of four largest banks in South Africa. Using service loyalty constructs from Lu and Tang (2001), this study attempts to find the link between customer perception of value disciplines and service loyalty among retail banking

customers in Malaysia. As such, the contributions of the study can be examined from two perspectives namely from a methodological and practical view point.

From a methodological view point, this study adds on to the existing literature on customer value perception by exploring the value perception of retail banking customers in Malaysia. Further, this study also takes on a wider approach than previous research by Bick et al. (2004) by looking at a broader scope i.e. customer value perception among retail banks in Malaysia rather than just a few banks as well as to examine if the perception that 'foreign banks are better than local banks' holds true especially among Malaysian retail banking customers. In addition, this study also attempts to explore a fresh perspective by investigating customer's perception specifically on their main banker as this is more relevant to the current market scenario whereby banks are working on ways to gain market share and share of wallet by becoming the main banker for their customers.

From a practical contribution, this study serves to highlight to marketers and bank managers the importance of customer perception about their value delivery strategies. This is because despite regular satisfaction surveys, this may not be a good proxy to gauge customer loyalty as satisfaction does not always imply loyalty (Mittal and Lassar, 1998; Bennett and Rundle-Thiele, 2004). Instead other factors such as customer value perception have also been found to influence customer loyalty (Cronin, Brady, Brand, Hightower and Shemwell, 1997; Jayanti and Ghosh, 1996; Woodruff, 1997). Thus, a better understanding of what retail banking customer's value

perception would enable banks to review the strategies at hand in order to sustain or regain their position as the main banker.

1.5 RESEARCH OBJECTIVES

This study is undertaken to gauge the perception of Malaysian retail banking customers about the value delivered by their main bankers and to understand if there is a relationship between their perception and service loyalty (which comprises of behavioural, attitudinal and cognition loyalty). As such, the objective of the study is:

1. To examine the perception of retail banking customers about their main banker's value disciplines (i.e. in terms of operational excellence, product leadership and customer intimacy).
2. To examine the expectation of retail banking customers about their main banker's value disciplines.
3. To examine the gap between customer's perception and their expectations of value disciplines from their main banker.
4. To learn of retail banking customers' preference for operational excellence, product leadership and customer intimacy.
5. To examine the relationship between the customer's perception of the value delivered by their main banker and the different dimensions of service loyalty, and
6. To study the relationship between the type of bank and facilities on service loyalty.

1.6 LIMITATIONS OF THE STUDY

This study explores customer value perception based on a theory provided by Treacy and Wiersema (1993) and constructs by Bick et al. (2004). Besides this, in order to measure service loyalty, these constructs were further adopted from Lu and Tang (2001). As such, manipulation of the constructs are limited save for refinements in a local context (i.e. language). In addition, as noted from literature review (presented in Chapter 2), this theory and constructs are not as widely used and popular compared to some other constructs. Thus, comparisons with previous literature are rather limited. Lastly, as this study is conducted via convenience sampling by distributing questionnaire, results not generalisable in nature.

1.7 ORGANISATION OF THE REPORT

This report is organized into several chapters. Chapter 1 provides a background of the study which highlights the competitive retail banking scene and the need for banks to look into other avenue to gauge customer loyalty instead of relying on customer satisfaction surveys. This is followed by a discussion on key concepts such as customer value, value disciplines and service loyalty. Subsequently, the problem statement is formulated and research objectives, research questions are also outlined. This chapter concludes with a brief discussion on the contributions and limitations of the study.

Chapter 2 provides an overview of the banking landscape before discussing the relationships between customer value perception of value disciplines and service loyalty. This chapter also provides a conceptual framework which is used throughout the remaining chapters.

Chapter 3 provides a summary of a number of empirically testable hypotheses. It also highlights the measurement of constructs and describes the operationalisation of each of the constructs contained within the survey instrument. It also presents the research and instrument design. This is followed by a discussion on sampling, data collection and analysis techniques.

In Chapter 4, the results of sampling are discussed which include among others, the respondents profile and response rate. This is followed by results from hypotheses testing.

The last chapter i.e. Chapter 5 provides an overview of the study before discussing the results, its implication and limitation. The chapter ends by summarizing the contributions of the study and suggestions for future research.

References and appendixes are enclosed at the end of the dissertation.