CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews the relevant literature relating to problem statement. Firstly, it provides a brief overview of the banking sector and the definition of main banker before discussing the changes in consumer behaviour in the local banking landscape. Next, the literature review touches on the importance of understanding customer value perception, value disciplines and the different dimensions of customer loyalty from behavioural to attitudinal to cognitive loyalty. This chapter ends with an introduction to the proposed conceptual framework.

2.2 OVERVIEW OF BANKING SECTOR

The turn of the century has seen a significant transformation and a reemphasis on the importance of retail banking sector as a key income contributor to banks. The aftermath of the Asian Financial Crisis in 1997/1998, had created a major impact on the banking industry as banks realized that their large exposures to corporate defaults may have left the industry in an anaemic state for many years to come. Thus, banks in Asia have started to diversify their loan portfolios to include more consumer related credit beginning the year 2000 (Asian Banker Research , 2010).

The importance of the consumer business segment had redefined how banks in both mature and developing markets address this market and the need for a sustainable business model. With consumer banking contributing nearly three times more to a bank’s income stream than in 2003, tactical and operational leadership in retail financial services demands more attention (Asian Banker Research, 2010).

However, according to Asian Banker Research (2010), in today’s competitive market, focusing on operational excellence alone may not provide a sustainable business model. This is because the very same advanced systems and processes that ushered in the era of ‘mass banking’ in the late 1990s, also disintermediate relationships (between the bank and customer) at a scale that was not noticed before. With the lack of emotional attachment, banks are now having problems to retain their customers and their share of wallet. As such, banks which have mastered transactional capabilities and achieve operational excellence by building infrastructure and basic services model during the last decade, are now moving towards franchise building in an attempt to re-discover the consumer and to build customer intimacy.

The need to have a sustainable competitive advantage is critical to keep up with the rapidly changing financial landscape and increasingly competitive business environment. In addition, with new players waiting to snatch a slice of the growing financial pie amidst the financial sector liberalisation, banks need to identify new and appropriate strategy to differentiate themselves from their competitors.

In a nation-wide survey conducted by BNM (2004), it is revealed that while in general customers' satisfaction is favourable, the relationship between customers and the banking institutions needs improvement. This is because even though the survey reveals that one in three customers is satisfied with the banking relationship, it did not imply loyalty. The survey also went on to identify the following primary and secondary needs :

a) primary needs - quality interface with bank staff; effective and efficient delivery channels.

b) secondary requirements - product innovativeness with value-added features and electronic banking including internet banking.

As such, based on the factors above, it would seem that customers are looking primarily for customer intimacy and operational excellence followed by product innovation though this may not be the current focus by banks in Malaysia which are generally observed to be emphasizing on operational excellence and product leadership. Would customer intimacy provide the key to a sustainable competitive advantage for banks to hold on to their main banker position? What is the impact of this finding on banks that have always enjoyed regular customer patriotism?

2.2.1 The Importance Of Being A Main Banker

The concept of main banker is not something new. This term is coined to reflect a status or privilege enjoyed by a certain bank above its competitors when it comes to providing for and serving the needs of a customer. The characteristics of a Main Banker can be defined as follows (Ernst & Young, 2010, pg 8):

i. an institution where a customer do most of their normal banking transaction, or

ii. the account into which the customer’s salary is paid, or

iii. where the customer have the most long-standing relationship.

In short, a main banker is a bank regularly patronized by an individual customer for most, if not all, of his banking needs such as from savings (keeping the monthly salary), current account (issuing cheques), internet banking (e.g. payment / transfer of funds) to obtaining facilities (e.g. housing loan) and investment (e.g. insurance, unit trust). Though the consumer may maintain other accounts with other banks, however, the main banker is always the bank that will enjoy active utilization of services and customer preference.

Holding a main banker position is important to any bank as it allows the bank to enjoy a steady stream of income arising from customer banking needs. This is because as a matter of familiarity or convenience, customers would prefer to deal with one bank to conduct all their banking needs.

However, these days, there is a growing trend among customers to diversify their banking relationship. This polygamous loyalty is apparent among customers in banking as previous researches have shown that a number of customers use more than one bank (Lam, Burton and Lo, 2009; Chan and Ma, 1990; Denton and Chan, 1991; Nielsen, Terry and Trayler, 1998; Trayler, Neilsen and Jones, 2000; Lam and Burton, 2005; Calik and

Balta, 2006). Arising from this, there is a dilution in the share of wallet for banks that was once regarded as a main banker to an individual customer.

In a recent survey by Ernst & Young (2010), it is reported that the role of a main bank in Europe is diminishing as only 19% of respondents hold one type of product with their main bank when considering daily operations, savings, investments, loans, insurance and credit cards. With customers spreading their loyalty, the concept of a main banker is under threat as what matters most is the amount of business and the number of products that customers consume from the bank. So what can main bankers do to retain customer and defend their share of wallet?

2.2.2 Issues Facing The Main Banker

As highlighted in the introduction, there is a growing concern on how banks that used to be regarded as a main banker continue to retain customers and build their loyalty. However, to do this, banks must first realise and understand the changes in their consumer behaviours that had transpired over time. This can be explained but taking a look at several key events in the financial landscape.

Following the consolidation exercise in 2002 and further market liberalization efforts mooted by BNM under the Financial Sector Masterplan (launched in 2001), several effects on the financial market were noticeable, among others (BNM, 2004) :

a. <u>a competitive environment with new participation from foreign banks and expansion of existing foreign banks; expansion of Islamic Banks as well as other non-banks in providing financial services</u>

Post-market liberalization (after 2001), competition among market players have intensified. Today, four types of competition can be observed. Not only does competition prevail between existing local and foreign banks but also among current market players (local and foreign) with new market entries that have been granted commercial banking license such as Al-Rahji Bank, Kuwait Finance House, etc.

Besides this, there is also competition between inter-bank i.e. between the conventional bank and their Islamic subsidiary as they sought the same customer segment only to offer different form of facilities; one based on conventional banking principles while the other is based on 'shariah' principles (Haron, Ahmad and Planisek, 1994).

Finally, there is also an emerging trend whereby non-banks are also entering the consumer market to provide facilities that used to be monopolised by banks and other service providers only (BNM, 2006). For example, AEON credit (that is affiliated with Jaya Jusco supermarket) provides credit card, computer makers like Dell and HP provides consumer credit for purchase of computers, insurance company such as AIA providing housing loan etc. This is not only common in Malaysia, but also in other parts of the world. In the UK for example, new players like supermarket giants (Tesco and Sainsbury), mutual organizations (like Halifax, Alliance and Leicester), telephone and internet based organisations (like Virgin Direct and First Direct) have ‘converted into banks’ through their various types of financial products and services for their customers (Naser, Jamal and Al-Khatib, 1999). As such financial institutions need to focus on increasing customer satisfaction and customer retention by improving quality of their services (Levesque and McDougall, 1996).

b. <u>wider access to a range of products and services.</u>

As part of the financial market liberalization, domestic banks were encouraged to merge in order to build their resilience and financial capacity in the light of competition (BNM, 2000). The mergers among domestic banking institutions into 10 large banking groups and further with their finance, insurance and investment banking arms have churned out large financial institutions (universal banks) that enable economies of scale; widening the range of products and services to cross sell.

New hybrid products such as bancassurance products (combination of savings and insurance and investment) which used to be separately marketed by the respective companies are now made possible and are gaining popularity among users as an alternative to insurance companies such as Prudential, AIA etc.

Though the mergers have brought advantages to the market players as a whole, it could also pose a disadvantage for some players as on a more level playing ground, the consumer products have also become more commoditised as new innovations are now easily copied by market players that have almost the same network and technological capacity. Thus, with access to various and almost standardized products and services, consumers need not stick to one service provider.

c. Higher level of innovation and new delivery channels such as internet and mobile banking that enhanced the delivery of products and services as well as widened access to banking services.

With the advancement of technology, new delivery channels such as internet banking and mobile banking has emerged to cater to the dynamic needs of consumers (BNM, 2006). Not only does this mean that customers do not need to rely on branch banking, but also that banking is now 24/7, anywhere, anytime. This revolutionary change creates a large impact on how banks serve customers and in managing expectation among users in terms of integrated financial services.

This is because, with more efficient delivery channels that transient physical barriers, consumers no longer need to worry about the inconvenience of branch banking that operates within banking hours. With internet and mobile banking, not only does customer receive 24/7 access but also it provides the mobility that has never before been experienced by consumers. As such, consumers are able to consolidate its finances with a click of a button and this opens opportunities for consumers to enjoy more than one banking relationship.

However, with the introduction of internet and mobile banking there is also a growing disintermediation between the bank and customer.

This is because non personal delivery channels have become a substitution of direct customer interaction. The lack of customer contact would inevitably lead to lack of emotional attachment with the bank as it hinders rapport and relationship building (Makarem, Mudambi and Podoshen, 2009; Lavin and Maynard, 2001). This may not augur well for banks in the long run because if products and services offered are deemed to be homogeneous by customers then the next differentiator would be other elements such as price which will erode profitability in the long run.

In addition, with the advancement of technology that provides mobility and ease transactions between banks (BNM, 2003) such as through internet banking, payment systems such as Malaysia Electronic Payment System (MEPS) / HOUSe (shared ATM network among foreign banks), consumers these days may have lower switching costs and thus are free to diversify their banking relationship as compared to a decade ago.

d. intensified consumer awareness and literacy programme.

One of the key initiatives by BNM is to build on customer literacy (BNM, 2006). This is done by regulatory enforcement on for banks to be informative and transparent about their product offerings and communications to consumers. This includes updating their website regularly, requirement for banks to have customer complaint department, product and price disclosure requirement etc. Besides this, BNM also encourage consumers to be more financially savvy by seeking information and making comparison about the products and services offered by the various banks in Malaysia before making any decision.

The abundance of attractive offers out in the market such as credit cards, housing loans offered by so many bank and non-bank players opened up a host of benefits for the local consumers. Where previously limited and dominated by a number of players, today consumers are free to mix and match from the various product offerings in the market that meet their needs to leverage on the different strength and niche of different financial and non financial institutions.

The net effect of these situational changes to banks is alarming as it causes the dilution of the share of wallet which in the past was mainly enjoyed and confined to the main banker. Further, these changes also flag out the changes in customer value and loyalty which warrants a review of the current customer value delivery strategies undertaken by main bankers all these while.

2.3 RESEARCH FRAMEWORK

The above discussion highlights the changes in the local banking scene and the need for a study on what retail customers' value. By understanding what customer value, retail banks can then align and review the existing strategy to engage their customers. The subsequent sections discuss the various relationships between customer value perception, value disciplines and service loyalty. At the end of the section, a conceptual framework is presented.

2.3.1 THE CONCEPT OF CUSTOMER VALUE

> 'Gauging and communicating – what your products and services are worth to customers has never been more important' (James C. Anderson and James A. Narus, 1998).

How much is this product or service actually worth to customers? Can value be measured? These are some key questions that marketers seek to unravel. The ability to pinpoint a value of a product or services is important as internally driven product innovation and quality improvement initiatives no longer provide the basis for competitive advantage (Woodruff, 1997; Butz and Goodstein, 1996). Where in the past, companies can look inward to try to improve performance through better structure and process change; keeping the organization lean and mean, but today the next major management transformation will likely come from outside in; learning from markets and customers (Woodruff, 1997).

Understanding what customers' value has never been more significant as more and more companies are moving away from the traditional way of acquisition marketing to one that is geared towards relationship building. The idea of relationship marketing is to create customer loyalty so that a stable, mutually profitable and long term relationship can be enhanced (Ravald and Gronroos, 1996). This is done by improving customer satisfaction so that bonds can be strengthened and customer loyalty can be achieved. The shift in focus is a timely one as analyses of costs demonstrates that customer retention is substantially less expensive than customer acquisition (Woodruff, 1997; Birch, 1990). So how do we measure customer satisfaction?

Traditional quality models such as SERVQUAL developed by Parasuraman, Zeithaml and Berry (1988) advocates that quality precede customer satisfaction. Thus, perceived quality is defined as the difference in expectations and actual performance. However, this model may not provide an accurate picture given that customer satisfaction also depends on the value derived i.e. a ratio of perceived benefits relative to perceived sacrifice (Ravald and Gronroos, 1996; Monroe, 1991; Kotler and Levy, 1969). Emanating from the above, researchers such as Ravald and Gronroos (1996) and Iacobucci, Grayson and Ostrom (1994) have called for more discussions to look beyond improving perceived quality as means to increase customer satisfaction but instead to also consider other factors such as customer's perception of value. So what is customer value?

Previous research have pointed out that customer value can be viewed in two perspectives i.e. as the value or perceived value received from the organisation by the customer or the value of the customer to the organization (Bick et al., 2004; Woodruff, 1997). While the earlier looks at customer value from the customer's perspective, the latter defines customer value from an organisation's perspective. The difference in perception is a cost of concern because if an organization focused on customer value from their perspective it could lead to potential mistakes in identifying the right customer value to focus on (Bick et al., 2004; Woodruff, 1997; Parasuraman, Berry and Zeithaml, 1985).

As such, it is important to define customer value from the perspective of the customer rather than from the organisation's perspective. Zeithaml

(1988) defined customer value as, “the consumer’s overall assessment of the utility of a product based on perceptions of what is received and what is given”. Thus, customer value is often seen as a trade-off between what the customer received (such as quality, benefits) and what he or she gave up to acquire to use the product (such as price or sacrifice) (Bick et al., 2004; Woodruff, 1997). Customer value can also be defined as the value gained by the customer from using the product or services of the organization (Bick et al., 2004; Treacy and Wiersema, 1993). It is also a subjective notion of an individual customer’s judgement of the value of a product (Huber, Herrmann and Morgan, 2001).

Customer’s perception of value also depends on their learned perceptions, preferences and evaluation at different times such as when making purchases (choosing) and later on after experiencing the product’s performance (Gardial, Clemons, Woodruff, Schumann and Burns, 1994). Woodruff (1997) based on Customer Value Hierarchy Model (per Figure 2.1) defined customer value as ‘a customer’s perceived preference for and evaluation of those product attributes, attribute performances and consequences arising from use that facilitate (or block) achieving the customer’s goals and purposes in use situations’.

Essentially, the Customer Value Hierarchy Model (CVH) suggests that customers conceive desired and received value in a means-end way. Firstly from the bottom, customers learn to think about products as bundles of specific attributes and performances before forming a desire or preference for certain attributes based on their ability to facilitate achieving the desired consequence experiences. This then lead customers to desire certain consequences according to their ability to help them achieve their goals and purposes. On the other end, how customer measured the received value is based on the satisfaction with the attribute, consequences and finally in achieving the goal.

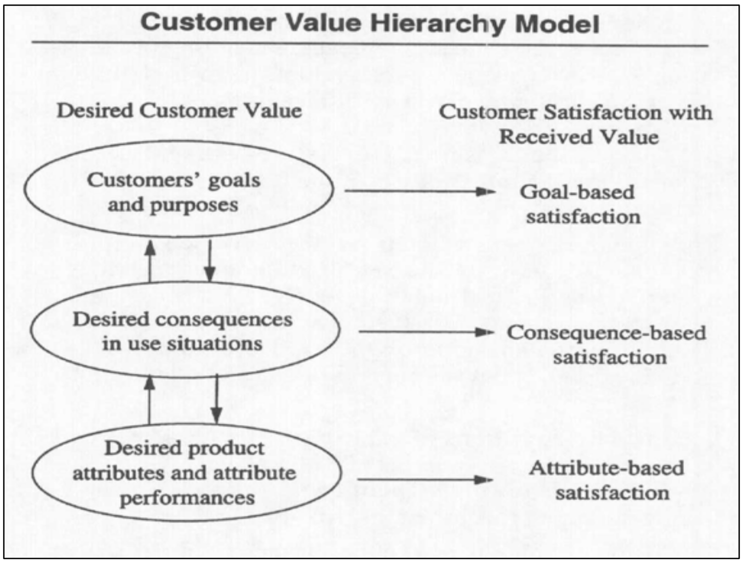

Figure 2.1 : Customer Value Hierarchy Model (CVH) by Woodruff (1997)

With the CVH we can get a better picture of how customers think about the value of products and use in situations as well as how it relates to the different kinds of overall satisfaction feelings that may arise. This is important in creating and implementing customer value delivery strategies as it helps specify what managers should learn about their customers as they evolve through time and experience with the product.

Furthermore, it also serves to highlight to managers the need to look beyond attribute based key buying criterias such as quality of product, price etc that has long been perceived by managers as the key to customer satisfaction without realizing that this may not always provide the competitive advantage throughout the customer lifecycle. This is because customer values changes across the customer lifecycle.

2.3.2 The Importance of Customer Value

The concept of customer value is a dynamic one as summarized by Parasuraman (1997) in a commentary entitled 'Reflections on Gaining Competitive Advantage through Customer Value'. This is because the attributes that customer used to judge value or the attributes' relative importance may change over time. Thus, if managers continue to focus on what they learn from short term, transaction-specific, attribute level drivers of customer value, this would reduce the effectiveness of their value based strategies (Parasuraman, 1997). As such, managers need to be aware of the different types of customers and initiate different efforts to collate customer value information that is vital in determining the suitable customer value delivery strategy. The framework for monitoring customer value as proposed by Woodruff (1997) in Figure 2.2, aptly describes the need to assess customer value at higher levels of abstraction (i.e. consequences and goal levels) (Parasuraman, 1997).

According to Slater and Narver (1994), 'to create superior value for buyers continuously, sellers must understand a buyer's entire value chain, not only as it is today but also as it evolves over time'. This is also supported by view of Vantrappen (1992) that argues that the value customers expect from a product would vary not only across customers but also within the same customer over time.

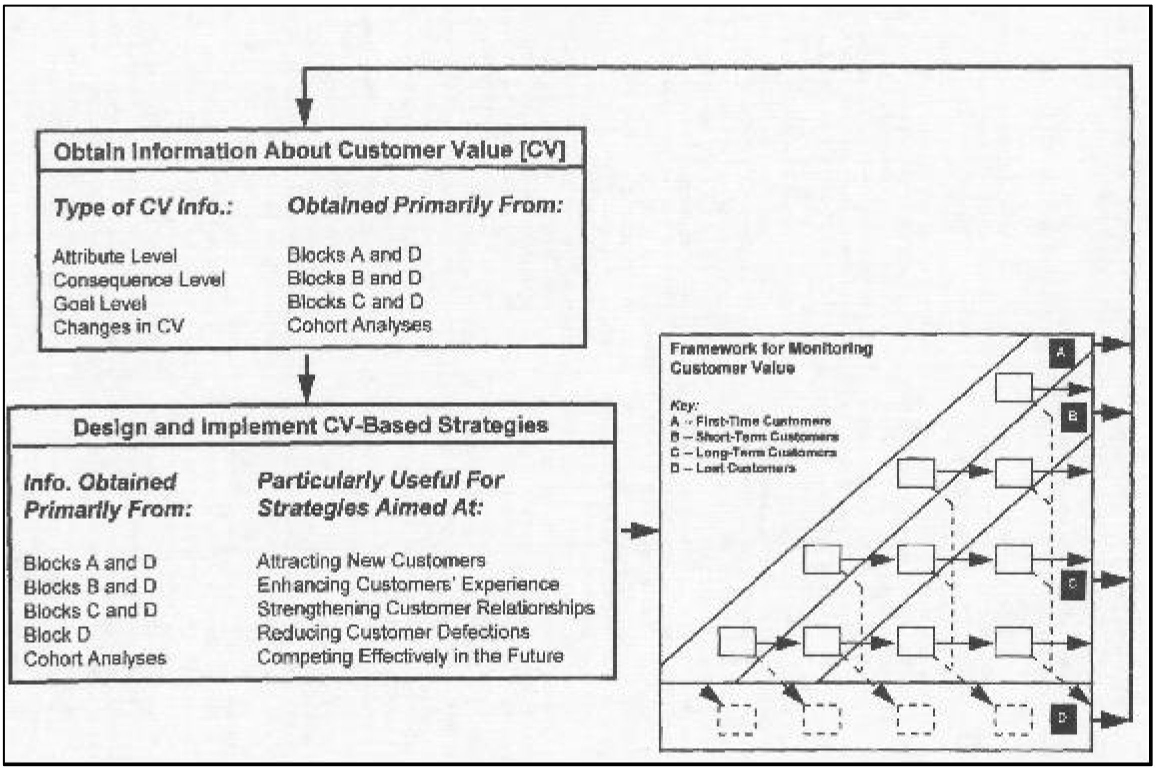

Figure 2.2 : Framework by Woodruff (1997), adapted from Parasuraman (1997).

Woodruff (1997) highlighted that organizations should focus on customer value delivery process and not just customer satisfaction measurement of the value delivery performance to address 3 emerging issues :

a. as more and more competitors are beginning to understand their customers' satisfaction at the attribute level and are using this knowledge to improve what they already do; quite likely, they will focus on the same attributes. Hence, competitive advantage in the future will have to come from discovering new ways to meet customer desired value such as using innovation. But to do so, it requires an in-depth understanding of a customer’s desired consequences and use situations.

b. challenge for marketing strategy is shifting from mere closing a sale in the short run to retaining valued customers in the long run (Dabholkar, Johnston and Cathey, 1994; Dwyer, Schurr and Oh, 1987). The focus should be on important value dimensions that when satisfied with superior value delivery, will lead to enhance commitment or loyalty by reducing customer’s motivation to shop around.

c. organizations that tend to stick to the same value dimensions i.e. on value delivery performance as a yardstick may find that they are not prepared for the inevitable change in the customer’s desired value dimensions and this leads to an execution of an inappropriate strategy.

As such, given the importance of understanding a customer’s value perception, what are the strategies that are currently emplaced by main bankers to satisfy and retain customers?

2.3.3 The Relationship Between Customer Value And Value Disciplines

Peter Drucker once wrote that ‘to satisfy the customer is the mission and purpose of every business’. Customer satisfaction is achieved when superior customer value is delivered by the business (Slater, 1997; Drucker, 1973). But in order to do so, organizations must discover the needs and wants of its target markets and be able to satisfy those needs more effectively and efficiently than competitors. This calls for superior performance that is enabled by the competitive advantage that the organization has over the competitors (Slater, 1997; Porter, 1980). A firm is deemed to have a competitive advantage when it possess the skills or resources that are unique, that would enable it to deliver customer value and are difficult to imitate (Slater, 1996; Day & Wensley, 1988; Barney, 1991).

Treacy and Wiersema (1995) in a book entitled “The Discipline of Market Leaders” highlighted three truths that characterised the modern world competition. Firstly, different customers bought different kinds of value. Secondly, organisations could not be the best in all dimensions, so they should choose their customers and narrow their value focus. Thirdly, as value standards rise, so did customer expectations; thus organizations could only stay ahead by continuously enhancing customer value.

Based on the three truths of modern competition and from their research on market leaders, Treacy and Wiersema went on to elaborate three concepts that organization must understand. They are :

a) value proposition

b) value driven operating model

c) value disciplines.

Value proposition is an implicit promise of the management to deliver a set of values that appeal to the consumer such as price, quality, performance, convenience etc. However, to deliver the value proposition, there is a need for a value driven operating model, a holistic approach which is essentially a combination of operating processes, systems, business structure and culture etc. The third concept, value disciplines are ways in which an organization could combine the value proposition and operating model to be the best in their markets (Treacy and Wiersema, 1993; Bick et al., 2004). These value disciplines comprise of :

a) operational excellence

b) product leadership

c) customer intimacy.

Briefly, organizations that pursue operational excellence are constantly seeking ways to minimize overhead costs, eliminate intermediate production steps, reduce transaction and other 'friction costs, and works to optimize business processes across functional and organizational boundaries. They are also seen to focus on delivering their products and services at competitive price and at minimal inconvenience. A classic example quoted by Treacy and Wiersema in their article entitled 'Customer Intimacy and other Value Disciplines' was Dell Computer who defined odds but focusing on getting valued computers at a friction of a retail price delivered to customers with ease and at minimal hassle.

Companies undertaking product leadership strategies on the other hand, embrace creativity, are engineered for speed to commercialise ideas quickly, are responsive to the change in environment and relentlessly pursue new solutions to the problems that their own latest product or service has just solved. An example quoted by Treacy and Wiersema (1993) was Johnson &

Johnson's Vistakon Inc., a maker of speciality contact lenses that was successful in being the first in the market to offer Acuvue contact lenses that was disposable and inexpensive.

The last value discipline i.e customer intimacy takes on an approach to look at the customer's lifetime value and not just the value of a single transaction. Employees in the company are geared to do almost anything with little regard to costs to make sure the customer get what he wants. A leading financial brokerage firm was quoted by Treacy and Wiersema (1993) of being capable to provide customer intimacy as they were able to segregate customers by their needs and to train specialized account managers to handle different segments. The company not only improved efficiency but also profitability as it could identify relevant value added services to cross sell. Hence, understanding how customers perceive the value delivered by their main banker provides a holistic view which is not possible through customer satisfaction surveys or feedback on product attributes alone.

2.3.4 The Relationship Between Customer Value And Customer Loyalty

Customer loyalty 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”. Other researchers described loyalty as the likelihood of a customer returning, making business referrals, providing strong word-of-mouth, as well as providing references and publicity (Chen and Hu, 2010; Bowen and Shoemaker, 1998; Tam, 2004)

As can be observed, the definition of loyalty are varied and evolved over time to encompass three broad dimensions i.e. behavioural, attitudinal and cognitive loyalty. Behavioural loyalty defines loyalty as a form of behaviour (Ehrenberg et al., 1990; Kahn et al., 1986) such as repeated purchase towards a certain brand of interest. However, measuring loyalty based on behavioural actions alone has certain limitations as it cannot distinguish between true loyalty and otherwise since we are not able to capture the reasons behind the purchases whether it is stems merely from convenience, monetary incentives, or whether the customer really maintains attitudinal loyalty (Dick and Basu, 1994; Pritchard and Howard, 1997).

Thus, the second dimension i.e. attitudinal loyalty was developed to look at the commitment of the customer towards the service relationship or to the service provider (Butcher et al., 2001; Lee et al., 2005). Lee and Cunningham (2001) posits that attitudinal measures are more advantageous over behavioral measures (e.g. repeat patronage) as it can provide a greater understanding of the factors associated with the development of loyalty while Rundle-Thiele and Bennett (2001) opined that attitudinal loyalty measures would be useful in service markets, since it can identify a customer’s favorable attitude towards a company in the service context.

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). This is because customers can be loyal due to prior knowledge or belief associated with the brand or service provider (Oliver,1999). As such, to have a more complete picture of loyalty it would have to comprise behavioural, attitudinal and cognitive components (Gremler and Brown, 1996; Lu and Tang, 2001).

2.3.5 Importance Of Service Loyalty Studies

The importance of loyalty studies is evident from the numerous researches that are available on purchased of goods (brand loyalty), industrial goods (vendor loyalty), services (service loyalty) as well as retail establishment (store loyalty). Although loyalty is important for all types of business, it is particularly salient (Gremler and Brown, 1998) for service firms due to the following reasons :

i. loyalty is more prevalent among services consumers than among goods consumer (Zeithaml, 1981; Bloemer, De Ruyter and Peeters, 1998)

ii. services has the inseparability effect and hence provide more opportunities for interaction between the service provider and consumer to develop customer loyalty (Parasuraman et al., 1985; Surprenant and Solomon, 1987)

iii. perceived risk is often greater in purchasing services as compared to goods (Murray, 1991), thus provides an avenue to build customer loyalty since loyalty is often used as a risk reducing device (Zeithaml, 1981, Bloemer et al., 1998).

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). Other authors have argued that customer loyalty is a key determinant of the long-term financial performance of firms and company's growth (Lam et al., 2009; Reichheld, 1993; Reichheld, Markey and Hopton, 2000). Besides this, banks are also increasingly aware that building partnerships with their customers are important for long term profitability and survival (Chakravarty et al., 2003) and survival necessitates that banks need to retain existing customers by preventing defections / bank switching.

Research has shown that consumer satisfaction with a commercial bank will affect the intention to use its services again, improve word-of-mouth or produce any other loyalty expression (Bloemer, De Ruyter and Wetzels, 1999; Calik and Balta, 2006). Acknowledging this, banks have generally focused on improving operational excellence and product leadership as means to increase customer satisfaction (Asian Banker Research, 2010). But which one of these value disciplines appeal more to retail banking customers? Thus, an understanding of the relationship between customer loyalty and customer value perception in terms of operational excellence, product leadership and customer intimacy is vital to build a differentiating factor especially among banks to retain their position as the main banker and to fill in this gap in the literature on service loyalty among retail banking customers.

2.3.6 Proposed Conceptual Framework

As this study is intended to examine customer's perception of the value disciplines employed by their main banker and the relationship with their service loyalty, a conceptual framework is illustrated as follows in Figure 2.3. Based on the literature reviewed, the conceptual framework consists of two independent variables (IVs) and one dependent variable (DV). The subsequent sub sections discuss on the research propositions in order to answer the research questions highlighted in Chapter 1.

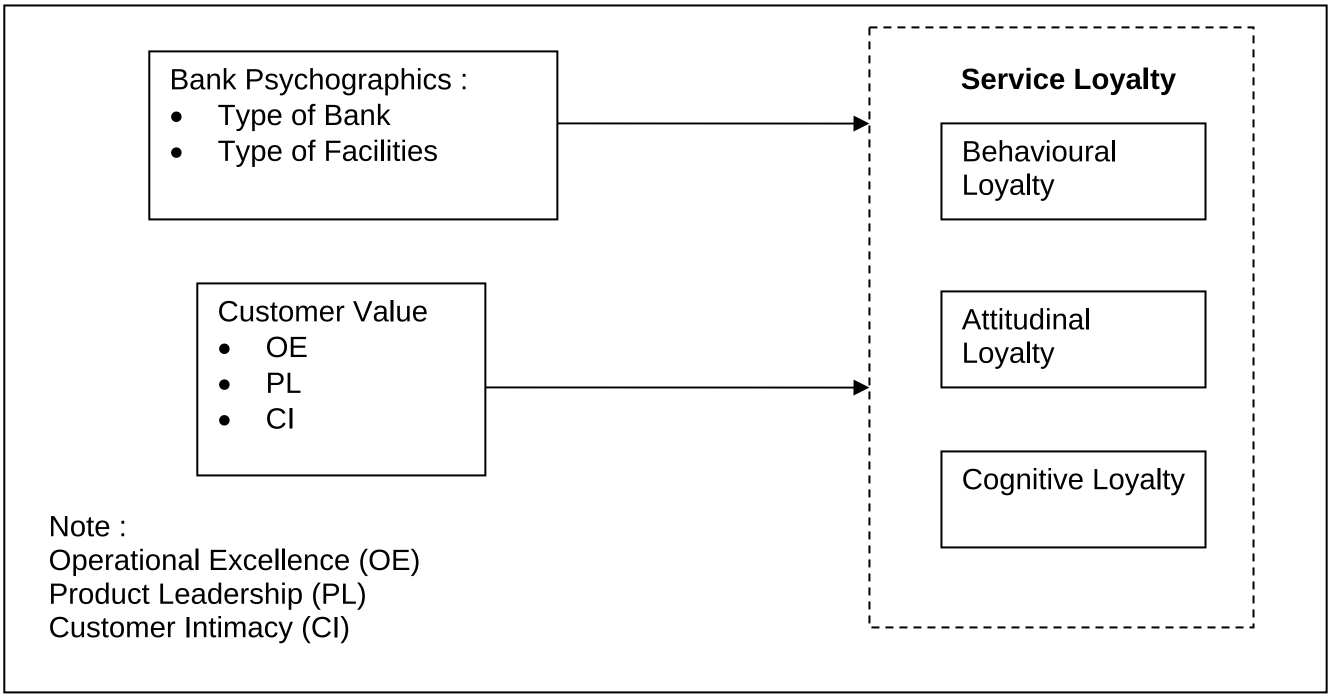

Figure 2.3: Proposed conceptual model

2.3.6.1 The Value Discipline That Is Perceived To Be Prominent Among Banks

As discussed above, retail banks may tend to focus on operational and service excellence (Naser et al., 1999) since satisfying customers' immediate banking needs leads to overall customer satisfaction. However, in order to differentiate themselves among competitors in the market, banks could also adopt other value disciplines such as Product Leadership and Customer Intimacy as the value discipline adopted is only good until a next better model comes along (Treacy and Wiersema, 1993). In view of this, it would be of interest to see which value discipline appears more prominently among retail banks. Therefore, the following proposition (*P*) is developed:

P_1: *Retail banking customers perceive operational excellence of their main banker to be more prominent than customer intimacy or product leadership.*

2.3.6.2 The value discipline that is expected by retail banking customers

Expectations are bound to differ especially when consumers perceive the organisation as being able to do much more or better. Comparing with three value disciplines, customers these days have been lamenting about the lack of human touch as evident from BNM (2004) customer survey report. On the other hand, observations made by other researchers such as Parasuman et al. (1988, 1991), Jabnoun and Al-Tamimi (2003) highlights that reliability and assurance are key dimensions that bankers should look at besides the other dimensions of service quality such as tangibles. As reliability and assurance can be achieved by ensuring proper systems in place arising from operational excellence strategies, it would seem that operational excellence should conform more closely to consumer's expectation. Hence, the following proposition is developed:

P_2: Retail banking customers expects their main banker to deliver more of operational excellence than customer intimacy or product leadership.

2.3.6.3 Difference between Customer's Perception and Expectation of their Main Banker

Research has shown that customer's value perception is essential in influencing customer loyalty (Cronin et al., 2000; McDougall and Levesque, 2000; Chen and Hu, 2010). Customer value perception is essentially a judgment of what value does the service firm offers. It can be defined as the ratio of perceived benefits relative to perceived sacrifice (Ravald and Gronroos, 1996; Monroe, 1991). Thus, higher value perception can be achieved if there are more perceived benefits or smaller perceived sacrifice.

Customer value expectations, on the other hand, refer to what consumers feel the service firm should offer rather than would offer (Parasuraman et al, 1988). Ideally, a happy customer would be one that has high value perception of the bank which also conforms or exceeds his /her expectations. As such, if there is a gap between perception and expectation, it would be an indicator for banks to relook at their value delivery models. Thus:

P_3: There is a difference between retail banking customer perception and expectation of their main banker's value disciplines.

2.3.6.4 Relationship between value disciplines and dimensions of service loyalty

Gremler and Brown (1996) describes service loyalty as the degree which customers exhibits repeat purchasing behaviour, positive attitude towards the service provider and considers using only this provider whenever a need arises. The three value disciplines advocated by Treacy and Wiersema (1993) i.e. operational excellence, product leadership and customer intimacy allows companies to attract different segments of customers but how does this relates to their customer's behavioural, attitudinal and cognitive loyalty is relatively unknown. Therefore:

P_4: Customer perception of value disciplines has an influence on behavioural, attitudinal and cognitive loyalty.

Service loyalty is a construct comprising of behavioural, attitudinal and cognitive loyalty. The relationship between the value disciplines and service loyalty enable banks to have broader picture of the level of service loyalty of their customers. Thus, the following hypothesis is developed :

P_5: Customer perception of value disciplines has an influence on service loyalty.

2.3.6.5 Value Perceptions Among Respondents whose Main Banker is Local or Foreign Bank

The local banking landscape comprises of local and foreign players. Foreign banks can be described as banks that are foreign owned but locally incorporated in Malaysia (Banking and Financial Institution Act, 1989).

Examples of foreign banks include Hong Kong Shanghai Bank Corporation (HSBC), Citibank Corporation (Citibank) and Standard Chartered Bank (Standard Chartered). Meanwhile, local banks are locally owned and incorporated banks which include among others, household names like Malayan Banking Berhad (Maybank), CIMB Bank Berhad (CIMB) and Arab Malaysian Bank Berhad (AmBank).

Previous literature indicates that consumers tend to perceive global brands to be more superior than local brands simply because they are global (Pitta and Franzak, 2008). This is because globality creates prestige and value in the minds of consumers. In terms of efficiency, local banks have always been compared to their foreign peers which are often perceived to exhibit a higher level of efficiency (Sufian, 2009). In addition, foreign banks are also deemed to be product innovation leaders; as they are able to leverage on their overseas network and strategic resources to introduce new products in the local banking environment. Thus:

P_6: Customer perception of value disciplines is different between local and foreign bank.

2.3.6.6 The Relationship Between The Type Of Bank And Facilities On Service Loyalty

There is an undocumented perception in the market that local banks tend to be more accommodating than their foreign counterparts when it comes to quality of assets (managing loans). This could be because local banks could potentially have better access to more information due to the extensive branch network whereas, foreign banks, whilst more efficient in processing and turnaround time, are equally efficient in pulling lines due to stringent risk management practices. With this perception, customer loyalty may potentially be affected since customers may feel unsecured knowing that foreign banks may pull away the financial umbrella anytime.

In addition, the type of banking facilities is also speculated to impact loyalty. For instance, if a customer has only a savings account and no other facilities with the customer, switching costs is relatively lower compared to a customer that has other facilities such as loans or internet banking facilities with the bank. Hence, if the customer has more types of facilities with the bank, the greater the switching costs would be. This is because the costs of switching are perceived to be higher than the benefits of switching (Lam et al., 2009; Panther and Farquhar, 2004). Thus, the following is suggested:

P_7: The type of bank and facilities has an influence on service loyalty.

2.4 CHAPTER SUMMARY

This chapter presents the relevant literature supporting the problem statement presented in Chapter 1. In order to provide an overview, this chapter started off by discussing the developments in the local banking landscape. This is followed by a review of the relationship between customer value, value disciplines and service loyalty. The relationship of these three elements provides the key to better understand what appeals to retail banking customers in Malaysia; enhancing the current literature on service loyalty. Arising from the literature review, a conceptual framework is presented followed by a discussion on the proposed hypotheses.