CHAPTER 1
INTRODUCTION

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1.1 Background of the Study

In this market driven world, customer satisfaction has become a main focus in all the industries especially service industry. Caruana (2002) proposed a mediation model that links service quality to service loyalty via the mediator customer satisfaction and found that customer satisfaction plays a mediating role in the link of service quality and service loyalty among retail banking customer. In this study, he suggested that other elements such as value and corporate reputation or image could be included into the integrated model. Therefore, service quality, perceived value, corporate image and customer satisfaction are very important elements for maintaining customer loyalty in banking industry.

The significant growth of banks has caused stiff competition among the banks in Malaysia. This increases banking customer's bargaining power since most of the bank offer almost the same variety of products such as savings or current account, mortgage, personal loan, unit trust and others. Customers could choose the bank they prefer in order for them to do their banking transaction. Therefore, the bank has to be more efficient in delivering the service, provide high perceived value to customer and at the same time maintain its good corporate image.

Bank Negara Malaysia (BNM) as the central bank plays the role in supervising the Malaysia banking system. The banking sector is made up of commercial banks, finance companies, merchant banks, discount houses and money brokers which are licensed under the Banking and Financial Institutions Act 1989 (BAFIA) and supervised by BNM. However, the finance companies have been acquired by their commercial banks and the merchant banks have been converted or merged into investment banks. The discount houses also have been transformed into investment banks.

Domestic and foreign commercial banks engaged in retail and corporate banking, and were the only institutions authorized to take demand deposits. (Detragiache and Gupta, 2006). On the other hand, there are challenges for foreign bank in Malaysia.

The Malaysian government limits foreign participation in financial services in order to encourage the development of domestic financial services providers.

The local bank like Maybank serves both retail and corporate customers. The business units of the bank comprise personal banking and wholesale banking. Personal banking provides credit cards, investment, insurance, loans and deposit taking services to individuals. Wholesale banking offers service to corporations clients in corporate banking, trade finance and loans such as property, vehicle and equipment loan.

The locally incorporated foreign bank like HSBC present in Malaysia since 1884. HSBC has an extensive product range in commercial banking and personal banking such as import and export solution, loan and finance in commercial banking and personal financing, investment in personal banking.

The competition of Malaysia banking industry has been intensified with the merger and acquisition of the bank. Recently, Hong Leong Bank Group had acquired EON and EON Bank Group is now part of Hong Leong Bank Group. With the acquisition, Hong Leong Bank has more branches and with this provides convenience to the customers.

There are many studies on service quality in different industries such as hotel, hospital, insurance and others. However, there are limited studies on different variables that lead to customer satisfaction and in turn drive customer loyalty. This study also responds to the suggestion of Caruana (2002) to include perceived value and corporate image to investigate whether customer satisfaction plays a mediating role between these two variables and customer loyalty.

1.2 Problem Statement

Customer satisfaction and customer loyalty are every organization's goal as these two factors are very important to gain business success. Therefore, marketing managers need to understand the determinants and antecedents of customer satisfaction and customer loyalty.

Customer is the main focus of every business. It is important that the firms understand customer's needs and wants and able to meet customer's demand. Due to the growth of the banking sector in Malaysia, the bank need to maintain customer loyalty as customer loyalty is an essential part of managing business. Bank needs to provide services in a more efficient manner in order to achieve competitive advantage. Furthermore, the bank needs to provide distinctive service quality in order to satisfy the customer and retain its customer. The bank will have repeat business with the retention of customers. Firms today are focused on customer retention and repeat business by the customers. Therefore, a study needs to be conducted to explore further the relationship among service quality, perceived value, corporate image, customer satisfaction and the customer loyalty.

A bank can differentiate itself from its competitor by providing high quality, professional and valuable service and maintain positive corporate image. The differentiation will help the bank to achieve competitive advantage.

Customer satisfaction with a service experience is an important antecedent for customer loyalty (Selnes, 1993). It is very important to win customer satisfaction since customer satisfaction is a very important factor contributes to customer loyalty. However, limited studies have been conducted to examine the relationship between service quality, perceived value, corporate image, customer satisfaction and customer loyalty. This apply to domestic retail banking as well and therefore call for research of what factors are responsible in keeping customer satisfy and the indirect effect of these factors towards customer loyalty through customer satisfaction is crucial. Therefore, this study attempts to examine the relationship between these variables in an integrated model using domestic retail banking sector as the scope of study.

1.3 Research Questions and Objectives

This study will determine the predictors of customer satisfaction. The study will investigate the direct effect of service quality, perceived value, corporate image on customer satisfaction and indirect effect on customer loyalty in domestic retail banking sector. The result of this study may assist marketers to determine how the predictors can be structured to improve customer satisfaction, thereby cultivating customer loyalty.

The research questions for this study are as follows:

1. What are the predictors (service quality, perceived value and corporate image) of customer satisfaction in domestic retail banking sector?

2. Does customer satisfaction have relationship with customer loyalty?

3. Do the predictors have relationship with customer satisfaction and customer loyalty?

The following are the research objectives for this study:

1. To determine the predictors of customer satisfaction in domestic retail banking sector.

2. To investigate whether customer satisfaction have a positive relationship with customer loyalty.

3. To examine if customer satisfaction is the mediating factor in the relationship between the predictors and customer loyalty.

1.4 Scope of Study

There are 8 domestic banks and 16 locally incorporated foreign banks with operations in Malaysia registered under The Association of Banks in Malaysia (2011). The domestic banks and locally incorporated foreign banks operating in Malaysia are listed as per table 1.1.

Table 1.1: Domestic banks and foreign banks

Domestic Bank	Foreign Bank
Maybank	Bangkok Bank Berhad
Public Bank Berhad	Bank of America Malaysia Berhad
CIMB Bank Berhad	Bank of China (Malaysia) Berhad
Hong Leong Bank Berhad	Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad
AmBank (M) Berhad	Citibank Berhad
Affin Bank Berhad	Deutsche Bank (Malaysia) Berhad
Alliance Bank Malaysia Berhad	HSBC Bank Malaysia Berhad
RHB Bank Berhad	J.P. Morgan Chase Bank Berhad
	Standard Chartered Bank Malaysia Berhad
	The Bank of Nova Scotia Berhad
	OCBC Bank (Malaysia) Berhad
	The Royal Bank of Scotland
	United Overseas Bank (Malaysia) Berhad
	BNP Paribas Malaysia Berhad
	Industrial and Commercial Bank of China (Malaysia) Berhad
	Sumitomo Mitsui Banking Corporation Malaysia Berhad

Source: The Association of Banks in Malaysia

Based on the Banking and Financial Institution Act 1989 from Central Bank of Malaysia, only the banks under license are allowed to carry on banking business in Malaysia. In this research, the scope of study is the domestic retail banks. The list of domestic retail banks are presented as per below:

(1) Malayan Banking Berhad

(2) Public Bank Berhad,

(3) CIMB Bank Berhad

(4) Hong Leong Bank Berhad

(5) AmBank (M) Berhad

(6) Affin Bank Berhad

(7) Alliance Bank Malaysia Berhad

(8) RHB Bank Berhad

(9) Bank Kerjasama Rakyat Malaysia Berhad

(10) Bank Simpanan Nasional

(11) Bank Islam Malaysia Berhad

(12) Bank Muamalat Malaysia Berhad

Retail banking is a banking service mainly focuses on individual customers. Retail banking provides personal financial services such as mortgage, hire purchase loan, personal loan and many retail banking also offer small and medium sized business loan. Retail banking focuses on consumer market and offers a variety of banking services such as savings and current accounts, debit and credit cards and bill payment services.

Most of the retail bank provided self service terminal such as Automated Teller Machines (ATMs), Cash Deposit Machine, Cheque Deposit Machine or online banking services. Retail banking offers banking services include deposits services, consumer loans, credit cards and electronic banking to the public (Toelle, 2006).

The scope of this study covers the following products offered by domestic retail banking sector:

(1) savings/ current account

(2) credit card

(3) home/ hire purchase/ personal/ business loan

(4) fixed deposit

(5) mutual fund (unit trust)

(6) insurance

The domestic retail banking sector is growing and the competition among the domestic retail banks is increasing. Therefore, this study uses domestic retail banking sector as a scope of study to examine the relationship between the service quality, perceived value, corporate image, customer satisfaction and customer loyalty.

1.5 Contribution of the Study

Limited studies have been conducted to examine the relationship between the following five variables, which include service quality, perceived value, corporate image, customer satisfaction and customer loyalty. This study was carried out based on these five variables in an integrated model in the domestic retail banking sector. It is useful to guide marketers and academics on customer's perception of what factors will influence customer satisfaction and subsequently customer loyalty. A study with the development of integrated model is crucial, since according to Cronin, Brady and Hult (2002), the 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 variables bias.

Satisfaction is a major outcome of marketing activity. It serves to link processes culminating in purchase and consumption with postpurchase phenomena such as attitude change, repeat purchase, and brand loyalty (Surprenant and Churchill, 1982). Service quality, perceived value and corporate image play an important role within the service environment especially in bank environment. Based on the interrelationship between service quality, perceived value, corporate image, customer satisfaction and customer loyalty, it might provide ideas to domestic retail banking sector to improve the services in order to gain sustainable competitive advantage.

1.6 Thesis Organization

There are five chapters in this research which cover the following topics:

Chapter 1: Research Introductory

This chapter provides the research background, problem statement, research questions and objectives, scope of study and contribution of the study.

Chapter 2: Literature review

This chapter reviews the literature that past and present researchers produced. The purpose is to identify the relevant topics in service quality, perceived value, corporate image, customer satisfaction and customer loyalty.

Chapter 3: Research Methodology

This chapter is on research design and identifies which methodology to use in collecting data for the research. Data analysis technique also been illustrated in this chapter.

Chapter 4: Research results

This chapter is about the research result and analysis on the data. This is to test the hypothesis and its relationship of the variables.

Chapter 5: Conclusion and Implications

This chapter concludes the research and provides the limitations of study, recommendations for future study and managerial implications.

1.5 Chapter Summary

This chapter describes on introduction of the research, the research questions and research objectives. This chapter also explains on scope of study for domestic retail banking sector, contribution of the study and the thesis organization.