# Title

**Customer Experience Strategy**

# Subtitle

**The Role of Emotional Satisfaction in Service Encounters – A Survey of First National Bank Customers.**

**By**

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**202516815**

**Submitted in partial fulfillment of the requirements for the degree**

# Master of Business Administration

in the Graduate School of Business

in the Faculty of Management Studies

at the University of KwaZulu-Natal
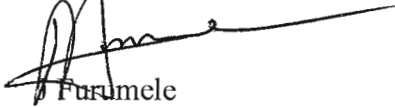
**Supervisor: Dr A Kader**
**January 2006**

## CONFIDENTIALITY CLAUSE

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To whom it may concern

Due to the strategic nature of the content shared in this research document, it would be appreciated if its content were treated as confidential. It is therefore requested that this document be neither circulated nor placed in a library for reference purposes for a period of not less than five years from submission date

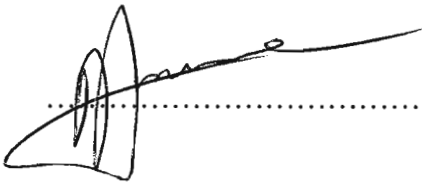Your co-operation and assistance in this regard is highly appreciated.

Yours sincerely

F Furumele

## DECLARATION

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I declare that I personally completed this research study to be submitted in partial fulfillment of the requirements of the degree for Master of Business Administration at the University of KWAZULU-NATAL.

This dissertation has not been submitted previously for any degree or examination at any other university.

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- Respondents

# ABSTRACT

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## Overview of the Topic

This study has empirically analyzed the significance of emotional satisfaction in the financial service encounters. The specific focus of this study is around finding out if the relationship between emotional satisfaction and the following important concepts exists i.e. service quality, customer loyalty and relationship quality. Furthermore, the study seeks to clarify the role of emotional satisfaction in predicting customer loyalty and relationship quality. The relationship between emotional satisfaction, service quality, customer loyalty, and relationship quality as a context, was utilized, as well as data from a sample survey of 1,261 Inland West First National Retail Bank customers.

The aim of this study is to establish using probable sampling technique if there are merits in support of customer experience strategic choice within retail banking sector. A survey approach has considerable ability in generating answers to business questions such as the what? why? and how? through use of questionnaires. Interviews will also be conducted as part of the greater FNB survey.

The results showed that service quality is positively associated with emotional satisfaction, which is positively associated with both customer loyalty and relationship quality. In addition, customer's feelings of enjoyment proved a best predictor of customer loyalty, while feelings of happiness served as the best predictor of relationship quality.

The findings of the survey imply the need for a FNB to strategically leverage of the key antecedents of customer loyalty and relationship quality in its pursuit of customer retention and long-term profitability

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# CHAPTER ONE

## Introduction

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### 1.1 Introduction

In this section of the study, one aims to provide basic background to customer experience concept as well provide some background of First National Bank, its history and its current state of affairs including review of the competitive landscape within the financial industry.

Although customer experience, mostly the physical elements of it, has been the subject of study by many business books, and MBA programmes, building and sustenance of great customer experience strategy over a lengthy period of time remains a subject of interest to many sales and service organizations.

In the context of FNB, the value-add is placed around exploring whether the customer experience pilot study conducted in Inland West areas of Gauteng warrants national rollout through out FNB branch network. FNB management is currently not sure as to whether there is sufficient evidence suggesting the national rollout of customer experience. This study will provide FNB management with some clear guidelines as to what course of action to take regarding whether to implement the strategy or not.

South African retail banking activities are primarily focused on customer service and sales. Four banks dominate the South African first tier banking industry. These include Absa, Standard Bank, First National Bank and Nedbank. The retail section of banking is mainly concerned with acquisition, expansion and retention of customers (Abedian, I., 2002).

All the competing commercial banks within the domestic market are competing for market share i.e. acquisition and retention of profitable customers. In recent years, banks have realized that they can no longer compete on product and process innovation as that gets copied or imitated by the competing bank in a matter of weeks or days.

The banking sector has also realized that the period when they could still compete on the basis of service excellence is over. Today's customers have come to expect superior customer service encounter as a given part of the deal. Business of all sort now devote considerable energies on tracking customer service encounter satisfaction as a result (Leavitt, 1983). The latter statement clearly reveals the character of the domestic market leading one to discuss the prevailing domestic banking industry environment.

The domestic financial environment is characterized by increased customer expectations. Piphany, (2003) assert that in such a challenging and competitive environment, it is clear that survival and success depend on an organization's ability to get, keep and grow its current customer relationships.

Shaw and Ivens, (2002) believe that at a macro level, businesses increasingly find that time from innovation to imitation is reduced to a matter of weeks. This state of affairs is believed to come about as result of globalization, technology and competitive forces. Lately, first tier banking groups have been placing significant focus on staff training, reward strategies, motivation and many related people development areas of business.

The key competitive differentiator in today's economy is a company's ability to manage its customer relationships with greater precision and care in a cost-effective way. While this experience is multi-faceted, one of its key elements is world-class Customer Service. According to Hitt et al, (2003) strategic competitiveness is achieved when a firm successfully formulates and implements a value-creating strategy.

Organizations can align their business objectives with the service needs and expectations of their customers in such a way that everyone wins by focusing on optimizing customer

experience at every point of interaction. In most cases, organizations would work hard to define segment customer value proposition based on customer knowledge insights. The value propositions assist in producing an integrated offering that aid in the optimization of customer experience. A value propositions would encapsulate attributes such as product, sales, service, channel of delivery, communication or customer contact plan and brand image (Keller, K., 2003).

Currently FNB uses more than one method to keep their customers satisfied. One of the applied approaches is FNB's use of the Customer Relation Center (CRC) approach to dealing service issues such as customer complaints. Broadly, FNB strategy can be described in terms of Porter's value chain model. Porter's model looks at the critical activities of an organization including primary activities such as Human Resources Management, Technology development and Procurement and the secondary activities such as Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales and Service. The CRC division plays a central service role of elevating the significance of speedily resolving customer complaints. Other areas of Porter's model are covered in customer value proposition attributes mentioned earlier.

All FNB customers are encouraged to utilize the CRC division to log their dissatisfaction or when looking to comment on great service experience. This is normally done telephonically or by means of a formal letter addressed to any of the senior manager at FNB. The executive leadership of retail division gets to know about customer complaints or compliments logged with the CRC (Edna Oberholzer, interview conducted by Jabu Furumele on 21March 2005).

## 1.2 Motivation for the Study

The retail-banking sector in South Africa is said to be slowly reaching a state of saturation with market share growth opportunities mainly existing from among the competitors themselves – i.e. the domestic first tier commercial banks namely, Absa, Standard Bank, First National Bank and Nedbank (Abedian, I., 2002).

Recently, the competitive arena is being expanded by entry of the so called second tier financial institutions for example, MTN Bank, Edgars Financial services, Ellerines, BMW financial services and others. Their aspiration is to grow their business from the same domestic market that first tier banks compete in. This situation presents increased challenge for traditional commercial banks.

Given the prevailing challenges, a research study should be considered adequate or sufficient, when it can add some value by way of providing a solution to the existing challenges. The retail sector of banking business is mainly concerned with addressing three core strategic imperatives i.e. getting customers, keeping or retaining them and growing their relationships with the organization. FNB retail banking will derive insights based on an alternative customer acquisition and growth strategy shared in this study. This study will also contribute additional insights into the discipline of experience management or customer experience management in the realm of financial services sector.

In the wake of a cut throat competitive environment, business questions such as the what? why? and how to? increasingly come to the fore from various spheres of business planning and development and need answers from management teams. FNB retail bank needs to explore a new and sustainable acquisition and retention strategies for future business growth. This study attempts to highlight the benefits of managing customer experience as a strategy that can lead FNB retail Bank to attain status of preferable service provider of choice in the market.

Thus the motivation of this study is about revealing the benefits of implementing and managing customer experience as a strategic approach to driving of long term customer relationships whilst retaining the existing business in the financial services environment.

## 1.3 Focus of the Study

The focus of this study is to establish if there are grounds to consider customer experience strategic choice and thus implementation thereof, focusing mainly on the role of emotional satisfaction in service encounters within retail banking business. This is done through establishment of a relationship between emotional satisfaction and the following key concepts i.e. service quality, customer loyalty and relationship quality.

Broadly, the focus of this study lies in the re-evaluation of the significance of customer experience strategy and its concomitant elements. Furthermore, the study provides an in-depth empirical analysis of FNB customer's emotional satisfaction role in the service encounters. The findings are used to determine whether there is a correlation coefficient between emotional satisfaction and the key concepts of the study such as service quality, customer loyalty and relationship quality.

## 1.4 Problem Statement of the Study

To investigate and determine if a link between emotional satisfaction in a service encounter and competitive edge exits. To consider what FNB retail banking needs to do in order to achieve long-term competitive advantage. To determine how FNB should go about implementing the identified ingredients of success throughout its retail-banking network.

The analysis of the interaction of concepts such as emotional satisfaction, relationship quality, customer loyalty and service quality will form the focus of this study helping provide answers mentioned in the problem statements stated above.

The ultimate aim of customer experience strategy should be the realization of a state of affairs where customers love to buy from FNB as a result of strong affinity to its brand as influenced by customer experience strategic inventions such as management of customer's emotional experience. These will help build sustainable competitive advantage that is referred to in this study.

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## 1.5 Objectives

The objectives of this study are as follows:

- To empirically examine the role of emotional satisfaction (core component of customer experience) in service encounters.
- Investigate the relationship between emotional satisfaction and key concepts such as service quality, customer loyalty and relationship quality.
- To clarifying the role of emotional satisfaction in predicting customer loyalty and relationship quality.
- To use as a context the relationship between emotional satisfaction, service quality, customer loyalty and relationship quality as well as data from a sample survey of 1,261 Inland West FNB retail customers' evaluation of the branch transacting experiences to address strategic issues.
- To establish if the customers' feeling of enjoyment serves as the best predictor of customer loyalty.
- To find out if feelings of happiness serve as the best predictor of relationship quality.

These objectives provide the framework and the focus area of this study. The study will provide valuable input to FNB's management on the question whether to spend more money on rolling-out customer experience strategy or not, a question largely based on whether there is return on investment or not.

## 1.6 Limitations

Although the probability sampling technique is employed in order to make inferences from the sample about the population (Inland West existing customer base) to answer the research questions. This study is still limited to Gauteng's West Area and therefore the results of the pilot may not necessarily indicate that possibility of customer experience strategy suitability or success can be attained elsewhere in the country Regions.

The scope may be limited by the fact that a sample size may be considered not representative enough as to provide reliable clues, i.e. it might be difficult, for example to utilize the finding of the Inland West area [1](Ulwazi – eight branches) and assume that the findings can be used to implement same retail strategy in a distinctly different local market for example the KwaZulu- Natal local market.

Targeting respondents from all race groups may be problematic as the respondents in this study are based in Inland West Gauteng, an area that is predominately white middle class. Therefore the sampling frame may have not included all cases that are critical for a sample to be representative enough for example, diverse race, income, life style, life stage variables.

Additional limitations of this research include time constraints, costs and the customer experience bias inherent in the research design. Data gathered through will be used to analyze the extent of the relationships of emotional satisfaction role on customer loyalty, depth of customer relationship. It will also look at the role of service quality and its effects on emotional satisfaction in the banking realm.

## 1.8 Conclusion

Chapter one provides an introduction to the concept of customer experience as well as providing a basic background of FNB and its domestic competitive landscape. This chapter sets out to outline critical areas of the study thus providing a reader with adequate information concerning the following; motivation for the study, problem statement of the study, objectives, hypothesis and limitation of the study. The information discussed above paints a portion of the picture about this study. Now that all the introductory information has been articulated in this chapter, the next logical area to explore should be introduction to consumer behaviour model. Chapter two will strive to provide in-depth insights towards understanding basic principles of consumer behaviour, which is necessary in understanding how to manage customer's emotional satisfaction in service encounters.

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[1] Ulwazi – Zulu word for knowledge

# CHAPTER TWO

## Literature Review

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### 2.1 Introduction

The literature survey supports a two-fold strategy. Primarily, consumer behaviour is analyzed. Secondly, the review then delves into factors affecting emotional satisfaction in service encounters. The former seek to establish fundamental consumer behaviour theories and look at how they apply in the sales and services organizations as well as in other industries. The rationale of this broad approach to understanding consumer behaviour is motivated by a need to have an in-depth and comprehensive understanding that can be used to inform consumer behaviour's factors affecting positive brand affinity.

The latter will clarify the significance of emotional satisfaction in service encounters thus providing insights that informs correct behavioural and attitudinal requirements of frontline employees of a company. The understanding of both consumer behaviour sides will be used to infer whether customer experience can be considered a strategic choice that can bring about competitive advantage by FNB retail banking.

Therefore, the structure of this literature review will encapsulate defining customer experience and how it can be orchestrated. It will include a brief review of consumer behaviour models, a brief synthesis of the extent literature on key conceptual issues concerning the role of emotions in service encounters.

A separate analysis of the response consumers to implemented customer experience tactics is tested. Subsequently, the results of a study designed to offer empirical evidence on the interaction between the concepts is provided in chapter 4.

## 2.2 Defining Customer Experience

According to Carbone and Haeckel, (1999) consumers always get more than they bargain for, because a product or service always comes with an experience. By "experience" is meant the "takeaway" impression formed by people's encounter with products, services and businesses – perception produced when humans consolidate sensory information. Building of customer experience however comes with some challenges.

According to Thusy and Morris (2004) part of the challenge in building customer experience is that experience is an intangible quality that is so different from one person to the next. Experiences are built around feelings, emotions, smells, colours, spaces, sounds, human contact, branding, a thousand other factors, and time.

Human beings constantly filter a barrage of clues, organizing them into a set of impressions – some of them rational, some emotional. These impressions can be very subtle-even subliminal – or extremely obvious. They may occur by stance (attitude or by purposeful design. They may also exist as isolated episodes or as managed suites. Collectively, they become an experience Thusy and Morris (2004).

Carbone and Haekel (1999) assert that experience clues exist within each type of business environment. For example, experience clues may be in a form of either performance or context based. Performance clues relate to the function of the product or service.

In retail banking business, a simplistic example of what matters to consumer could include the issue of dispensing the right amount of cash request by the client. It does not matter whether an Auto Teller dispensed the cash or the transaction was over the counter, the cash requested by a client has to be correct at all times of utilization.

This aspect of retail banking business satisfies the performance criteria as consumers have come to expect it. Over and above the performance of services, context clues are telegraphed by the appearance of the ATM or the demeanor of the teller, by the décor, smell, cleanliness and location of the bank's branch for example Carbone and Haekel, (1999).

If one looks at the ATM side once more, great customer experience can be driven by factors that someone would perhaps have thought of as not significant. For example, the legibility of the print on the receipt and the signage leading to the ATM. Signage also plays a critical role inside the branch. Customer needs to locate and be at the right queue in order to get the right service.

As a strategic initiative a bank needs to manage these clues in an integrated and holistic fashion in order to engineer a great customer experience. If these clues are not managed, they may cancel each other out and leave no net impression on the consumer, or worse, induce a strong net negative perception (Carbone and Haekel 1999).

For companies such as Gillette, the performance issues for a shaver will revolve around whether the razors did or did not give a close and smooth shave.

Calhoun, (2001) believes a total customer experience requires an enterprise-wide view. He asserts that customers or consumers define their loyalty to an organization according to their total experience with it. For example, their loyalty (or lack thereof) may typically with insurance company x, not with the home insurance division or auto insurance division, if they happen to deal with both. Similarly, they define loyalty by the sum of their experiences with the organization, across all touch points and across all experiential elements i.e. presales, order and delivery process, product/service experience and post-sales support.

This effectively implies that if a company were to use Customer Relations Management (CRM) initiatives with an aim to improve loyalty, they would have to approach customer experience from a holistic perspective.

For a example, in a retail banking realm, interacting with a customer over the Web or call center in a customized manner, while doing nothing to improve their product or service experience, will have limited impact on loyalty Calhoun, (2001).

Similarly, utilizing the latest CRM technology in the home loan division of retail banking while the Vehicle Finance division lags in the Dark Ages will have little impact on loyalty for customers that deal with both divisions hence it is critical for banks to have a single view of the customer. This means that understanding of the customer's integrated financial needs is of critical importance and will inform the need to integrate internal functional lines rather than having functional silos, in order to work together in the provision of great customer experience (Calhoun, 2001).

If customer experience is systematically crafted into a positive net impression across all customer touch points, the clues promote customer preference, which a company can leverage to differentiate otherwise commodity-like products and services. Meeting customer requirement well enough through experience management will define the financial impact of meeting customer expectations (Calhoun, 2001).

Carbone and Haekel (1999) believe engineering customer experience begins with the deliberate setting of a targeted customer perception and results in the successful registration of that perception in the customer's mind. Systematically designing and orchestrating the signals generated by product innovation, service excellence and the ambience in a banking hall is the means towards engineering customer experience.

The design of branch network and the brand of an organization play a strategic role, which establishes a specific "takeaway" customer impression that engenders preference of the bank's product and services.

The design has to accommodate all critical areas of branch banking which enable easy delivery of products and services. FNB's branches reflect a certain operating model that acknowledges all the critical service areas in branch banking. These are the sales, service and cash areas.

As a measurement of the success of customer experience strategy, one would need to set measures that will analyze the success rate of customer experience tactics when implemented in selected branches. The use of baseline performance i.e. the as is sales effectiveness of the branch prior to the implementation of customer experience tactics and after the entire customer experiences tactics are in place within the selected branches. The hypothesis in this regard is that client's attitude does improve demonstrably as measured against baseline prior to engineering any customer experience tactics, and the average in branch sale per customer increases significantly as a result (Shaw and Ivens, 2002).

## 2.3 How Customer Experience is Orchestrated

Carbone and Haekel (1999) believe several paths can lead to customer preference: the product's performance, the service's performance, and the experience that context clues create. Carbone and Haekel (1999) argue that experience management is primarily concerned with the systematic design and implementation of the context clues that are emitted by the product and /or services and the environment. They argue that it is therefore distinct from (though it should be related to) product and service design. The most significant part of orchestrated customer experience being customer-contact employee service encounter.

According to Gronroos (2001) the degree of customer satisfaction in, in turn, influences customers' behavioural responses in the form of customer loyalty, word-of-mouth, or switching behaviours. In many cases, how a consumer/customer feels about the contact

employee often determines whether the customer forms positive behavioural responses towards the contact employee and the organization.

Strandvik (1995) contend that customers who developed positive emotional responses towards individual contact employees will have a stronger relationship with and be more committed to the organization.

The development of and maintenance of strong social relationships over a period of time can give the organization the opportunity to respond to service failures or competitors entreaties before a customer defects Berry and Parasuraman (1991).

People are naturally inclined to prefer pleasant, uplifting "special" experiences, and examples abound that demonstrates the important and lasting effect an experience can have on an individual. A physician's "bedside manner," for example, is a collection of clues that do not only influences a patient's choice of a physician, but also may enhance or undermine confidence, motivation, and ultimately the effectiveness of treatment.

Thusy and Morris (2004) believes great experience is created because it does not happen by accident and it is not only the result of better product features and functions or better services but because of how it makes people feel. A great café has just the right ambience; a great bookstore invites you to stay for hours, and makes you comfortable doing it. A great retail store makes one feel like family; a great brand becomes part of your own identity. All of these happen on purpose, for they are designed experiences.

In the banking realm, one has to understand the customer's unique perspective, because in part, experience can be the interaction between a customer and frontline employees. The behaviours of frontline service employees are critical to customer evaluations of service encounter Hartline et al., (2000). Not surprisingly, organizations can create a distinct and sustainable competitive edge by providing an excellent service delivery process.

The role of emotions plays a critical part of customer experience and is gaining attention as a central element in service quality management (Oliver, 1997). However, the literature does not yet offer clear models. However, recent studies suggest that emotion is a fundamental attribute in satisfaction and that of customer satisfaction should include a separate emotional component Cronin et al., (2000). Indeed, Stauss and Neuhaus (1997) contend that most satisfaction studies have focused mainly on the cognitive component of emotion, while seemingly important affective component has been largely ignored.

Further, Liljander and Strandvik (1997) argue that customer satisfaction includes both affective (or emotional and cognitive components). The authors found that negative emotions have a stronger effect on satisfaction with quality than positive emotions. Despite the above, consumer behaviour scholars have limited information about the nature of emotions in the consumption environment (Richins, 1997). This information therefore entails that no conclusive guidance for management has yet been found Gronroos (2001).

With the above information in mind, it does not mean exploring consumer behaviour models becomes completely irrelevant. However one would need to explore its insights with a bit of caution.

## 2.4 Consumer Behaviour Model

Consumer behaviour is the study of processes involved when individuals or groups select, purchase and use or dispose of products, services, ideas or experiences to satisfy needs and desires. Often different people may perform these functions (Mittal and Sheth, 2004).

A consumer may be thought of as a role player who needs different products or services to help them play their various parts.

Consumer behaviour model is also applicable in a retail-banking environment. FNB retail is interested in advancing towards a pull marketing strategy as opposed to a push

marketing strategy. A pull marketing strategy in this context case alludes to the promotion of a buying strategy as opposed to a sales (push) strategy.

A pull strategy has implication for the integration of internal functional lines e.g. marketing, product, processes, service, and finance with a view to add value to a consumer or customer.

Under a pull strategy, all the functional line operates in close collaboration thus creating the environment in which business has a single view of the customer. In retail banking, a single view of the customer or customer centricity relates to the understanding of the customer in which ever segment they are categorized, in terms of the integrated financial need e.g. transaction solution need, lending, saving, assurance, insurance and advice (financial planning). Consumer behaviour model provides insights into how customers in their various market segments behave (Garcia, 2003).

The significance of understanding the behaviour of customers within their allocated segments provides insights that enable the bank to anticipate customer-banking needs and thus be in a position to develop financial solutions that meet the needs of these customers. The knowledge of customer needs and the resultant ability to design "best fit" products goes a long way in creating and building long-term relationship with the customers.

According to Mader and Semenchuk (2000) companies will no longer be differentiated by their products or by their industry categories. They will be defined by how they connect their offers with current and future customer preferences. These assertions essentially mean that organizations need to shift from production to connection Mader and Semenchuk (2000).

An example of the production company is one that structures itself primarily around what it makes and tries to sell. It typically lacks insight into what really matters to its customers and focuses on separate product offers, distributed through independent and often competing channels.

A connection company, by contrast is an emerging business model for the 21<sup>st</sup> century. This type of organization configures itself around customer preferences and groups, not around the products it makes.

Mader and Semenchuk (2000) believe such a company focuses on knowing its customers and building long-term relationship with them by anticipating their needs and offering experiences they value.

In the retail banking space, the provision of easy access through multiple integrated channels (internet banking, ATM, telephone banking, call centre etc) with alliance partners (providing the ability to withdraw, deposit and pay beneficiaries at a retail store outlet for example in Pick n Pay stores) add value to clients due to increased convenience due to increased transactions points.

The ability to provide the right offering to the right segment requires in depth understanding of market segmentation. Client segmentation is an important aspect of consumer behaviour. According to Silbiger (1993) by having a definite segment in mind one can effectively aim and efficiently execute their marketing activities to yield the most sales and profits. This means therefore that without a target, one risks wasting marketing expenditure on disinterested individuals. Consumers can be classified based on more than one feature; these may include their demographics (income, age and gender), geographic location, behavioural (hobbies) and psychographics (life style, life stage).

Emerging developments such as new emphasis on relationship marketing and the practice of the database marketing illustrates the fact that marketers need to be much more attuned to the needs and wants of different consumer groups. Consumer behaviour is therefore important to our understanding of public policy issues and dynamics of popular culture. It is also a critical informant or should be, of the four P's of marketing mix i.e. Product, Price, Place and Promotion (Mittal and Sheth, 2004).
Predictions about behaviour and solid knowledge of consumers' attitudes and motives are central requirements for consumer success in the consumer goods and services sectors.

Companies who know the consumer's needs and habits, who understand their purchasing behaviour and use of the product and who can talk to consumers using targeting methods will have a competitive advantage over others in a similar industry (Mittal and Sheth, 2004).

As products and functional services become ever more interchangeable, the service offering as well as psychological product dimension increasingly play a supporting and differentiating role.

Therefore, in a competitive environment, only companies who conduct market research to understand their customers as well as the values that their customers are seeking and how they judge and find those values in the market place will survive. In reality marketers can only reach their customers if they know the secret of what makes them tick. Inadequate understanding of consumer behaviour would lead to businesses failure and more broadly, negative productivity, low economic growth and socio-political sub-standard consequences (Mittal and Sheth, 2004).

Thus researching customer behaviour is necessary for critical understanding of the target market so as to formulate connectivity with these potential customer needs. Therefore the review of consumer behaviour in this context is motivated or driven by the interest to source insights that will be utilized to inform customer experience strategy in retail banking.

## 2.5 Defining the Significance of Consumer Behaviour in Business Operations

According to Lamb et al., (2000) consumer behaviour is defined as being how consumers make purchase decisions and how they use and dispose of purchased goods or services.

The study also includes an analysis of factors that influence purchase decisions and product usage. Shiffman and Kanuk (1983) contend that this field of buyer behaviour studies how individual groups and organizations select, buy, use and dispose of goods, services, ideas or experiences to satisfy their needs and desires.

Mittal and Sheth (2004) define customer behaviour as a mental and physical activity undertaken by house hold and business customers that result in decisions and actions to pay for, purchase, and use products and services.

Businesses need a clearer understanding of consumer behaviour in order to segment their market appropriately and thus deal effectively with the varying and dynamic consumer segment's emotional needs, wants, preferences and interests (Mittal and Sheth, 2004)

Lamb et al., (1998) view consumer behaviour as critical to addressing the dynamic nature of consumers with regard to what one desires, what products one consumes and service preferences to create effective and well formulated marketing mix i.e. product, price, promotion and place.

Marketing management's focus on consumer behaviour attempts to understand consumer's behavioural patterns, thereby providing management insight necessary to manage, influence and persuade consumers to make particular product or service choices. Lamb et al., (1988), identify five reasons for studying consumer behaviour. These include:

- ❑ Consumer analysis as the foundation of marketing management which enables managers to do the following: Design the marketing mix; Identify market segments; Position and differentiate products; Develop market research studies
- ❑ Consumer behaviour may play an important role in the development of public policy
- ❑ The study of behaviour may enable one to be a more effective consumer
- ❑ Consumer analysis provides knowledge of overall human behaviour thus provides clues as to how to influence positive emotional experience necessary for building customer loyalty.

It must be recognized that consumer behaviour is about consumers and their perceptions of the quality of sales and service within a variety of organizations. Consumer

perceptions are critical to understand as they influence or play a critical role in the buying decision making process. In understanding the concept of consumer perceptions, one needs to look at the composite of factors affecting consumer behaviour.

## 2.6 Factors Affecting Consumer Behaviour

Lamb et al., (1998), identify three sets of variables driving customer behaviour as evidenced in figure 2.1. These include individual factors, social factors and the prevailing buying situation.

These factors are said to have an effect from the time a consumer perceives a stimulus (such as an advertisement on television or in print media for example a newspaper) until post purchase behaviour. These factors are fully depicted in the model below:
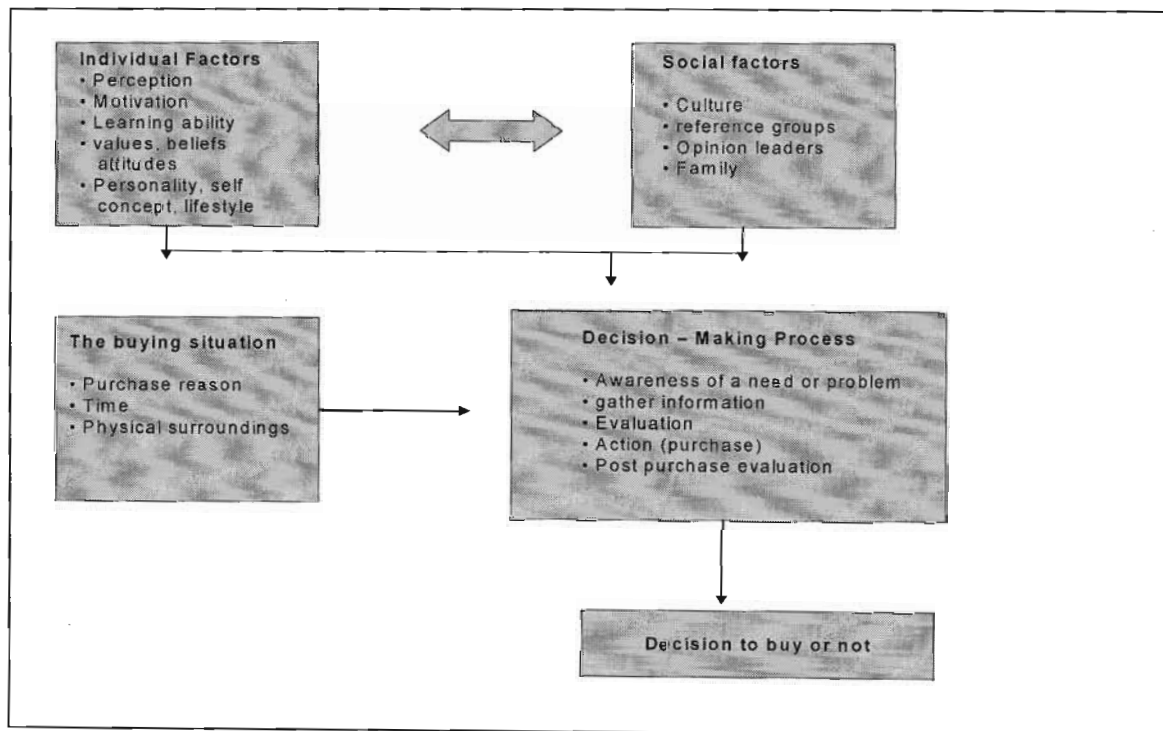


**Figure 2.1 Consumer Behaviour Model**
Adapted from Lamb, et al., (1998), "Marketing": International Thompson Publishing, p.160, and Perreault, W.D. & McCarthy, E.J. (1996), "Basic Marketing", Chicago: Irwin, p216

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## 2.7 Individual Factors Influencing Consumer Behaviour Buying Decisions

Individual factors that affect consumer behaviour are unique to each individual. These factors include perception, motivation, learning, values and beliefs, attitudes, personality factors, self-concept and lifestyle Van der Walt et al., (1989). These factors are discussed on the next page.

### 2.7.1 Perception

Perception refers to how an individual views and makes sense of the world around him/her by the process of how he receives, selects, organizes and interprets stimuli which are detected by one of the five senses i.e. hearing, smelling, tasting, seeing and touch. This stimulus is thereafter formed into coherent picture (Van der Walt et al., (1989).

Each individual in society can perceive or evaluate a common experience very differently from others. The reason for that is that each individual's reality is a total personal phenomenon based on the person's needs, wants, desires, values, expectations and personal experience i.e. his her perception of what is out there in society at large Mittal and Sheth (2004).

According to Lamb et al., (1988), the world is like a flaming ball of stimuli that affect our senses. As consumers it is not possible to perceive each and every stimulus, therefore consumers tend to use selective exposure to decide which stimuli to take note of and which to ignore. Understanding of the most pre-eminent human sense in a service business, for example banking, informs effective strategy selection. If perceptual sense is the strongest informant of consumer perception, one would argue that branch design from a look and feel perspective becomes the trump card amongst others.

According to Kolb et al., (2002) there are five stimuli mechanisms namely, adverts, product, packaging, brand name and commercials which can affect consumer behaviour as evidenced in figure 2.2.

The model (figure 2.2) shows what the two optional consumer behaviours are likely to behave i.e. either they choose to selectively distort the stimuli or retention it depending on what it is they see, hear, touch, smell or taste at a particular point in time. Various factors contribute towards consumer's selective reception of stimuli. For example, brand strength in the market may sway selective retention of stimuli about a product line belonging in the recognized brand.

Stimuli

| Adverts | Products | Packaging | Brand Name | Commercial |

Selective Exposure

Selective Distortion

Selective Retention
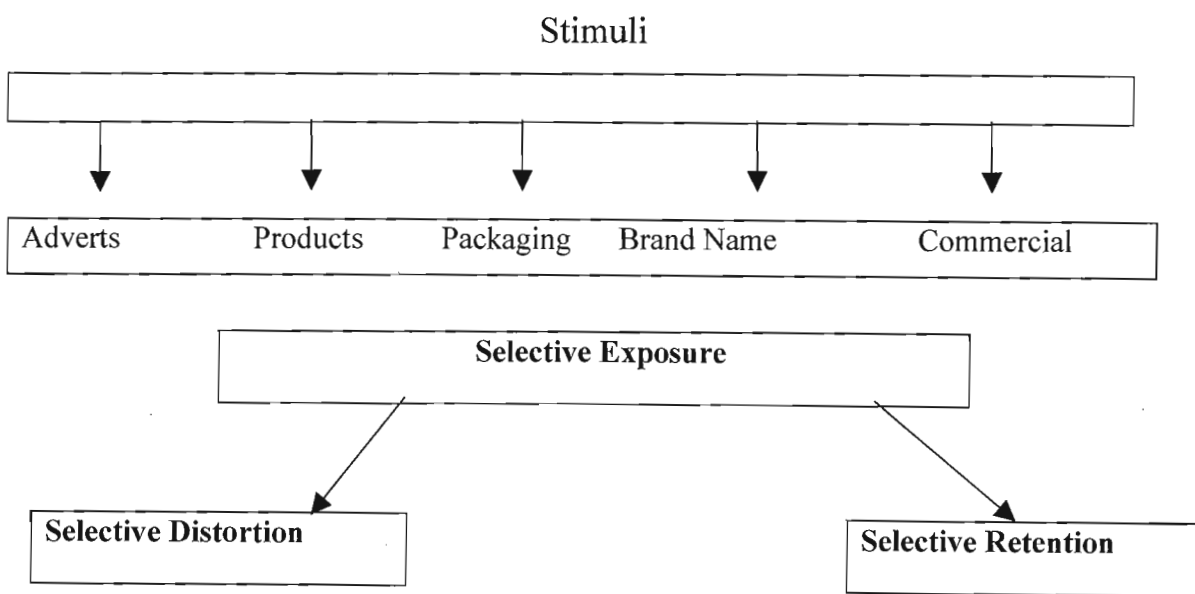
**Figure 2.2 Information Processing**

Adapted from Kolb et al., (2002): "Marketing Management: Book 3: Specific Topics in Marketing", Natal Business School Publishers

Perceptual mechanism includes selective exposure- where an individual chooses to expose themselves to certain stimuli only.

Selective distortion- is ascribed to a situation when individual changes or disregard the information that conflicts with their values and/or beliefs and selective retention i.e. remembering only certain stimuli and information that supports existing personal feelings or beliefs

Consumer behaviour needs to be understood under the umbrella of three roles of buyer, payer and user. The model below (figure 2.3) seeks to elucidate the customer types and behaviours. However one person may exercise these roles at a time, as such the distinction between the three roles becomes less important Mittal and Sheth: (2004).
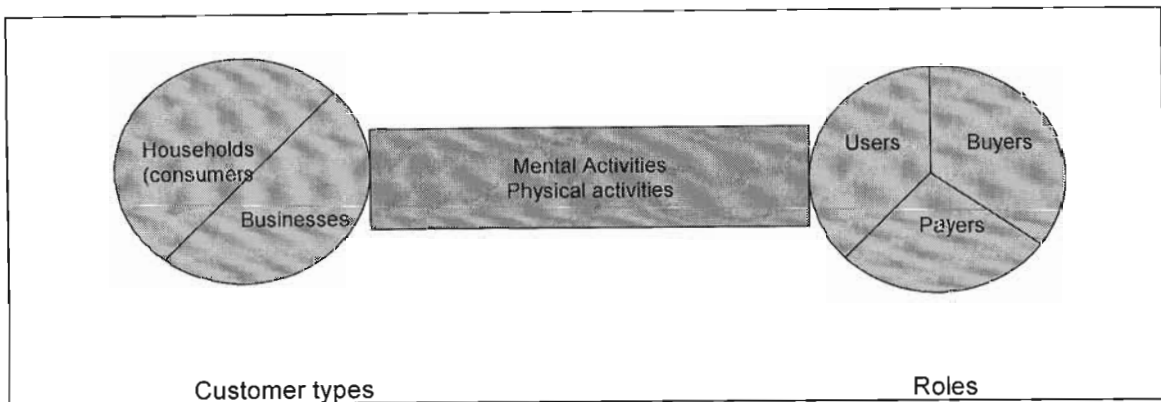


**Figure 2.3 Customer Types, Roles and Behaviours**
Adapted from Sheth .J.N and Mittal B. (2004), 2<sup>nd</sup>Edition, p.13: "Customer Behaviour: A Managerial Perspective"

Because of uncertainty as to the consequence of their purchase decisions, consumers always perceive risks in making product selections. Examples of such risks include psychological, financial, functional, social and time. The perceived risks can be reduced in various ways, namely, introducing the product under an established, high performance brand name, or distributing the product via reputable and highly recognized channels.

## 2.7.2 Motivation

Motivation is defined as a driving force within the individual that impels them to take action. Personal needs motivate a person to do something about his situation. According to psychologist Abraham Maslow, human needs and wants are arranged in a hierarchy. The higher level needs is dormant until lower level needs are satisfied.

The needs consist of Psychological needs, Safety and security needs, Belongingness and Love needs, Esteem and Ego needs and Self-actualization needs Mittal and Sheth: (2004).

### 2.7.3 Learning

Consumers' ability to learn influences consumer behaviour, i.e. a consumer may start picking up certain characteristic behaviour as they learn and develop. They may display these characteristics when interacting with any retail, touch points. They may have a different approach to buying for example. This could also inform whether they are an impulsive buyer or not. Learning is an ongoing process throughout one's life. It is the process that creates changes in behaviour through experience and practice. According to Mittal and Sheth (2004), there are two types of learning, namely, cognitive theories and connectionist theories. Learning theory is important to marketers as it helps to remind them that the concrete and timely actions are what reinforce desired consumer behaviour.

### 2.7.4 Values, Beliefs and Attitudes

A value is an enduring belief that a specific mode of conduct or end-state of existence is personally and socially preferable to alternative modes of conducts or end-states of existence Mittal and Sheth (2004). Consumer beliefs are all the knowledge a consumer has and all the inferences a consumer makes about objects, their attributes and their beliefs. It is an organized pattern of knowledge that an individual holds true about his/her world. It is important for marketers to recognize that a consumer's attributes and beliefs may not match reality.

An attitude is a learned predisposition to behave in a consistently favorable way towards a given object. Attitude is an individual's value system, which represents the individual's standard of good and bad, right or wrong Mittal and Sheth (2004).

If consumers have a negative attitude towards a product or service, marketers must strive to change this into positive one. They can do this by: changing beliefs about attributes, changing the importance of beliefs, adding new salient beliefs and strengthening an existing belief and making it more salient Mittal and Sheth (2004).

## 2.7.5 Personality, Self Concept and Lifestyle

Personality refers to the collection of psychological characteristics of people, which both determine and reflect their reaction to environmental influences. It is a cluster of interrelated beliefs and is in effect a processor or filter for incoming stimuli. Personality is self-serving, individualistic, unique, overt and consistent. Consumer perceptions therefore are closely associated with personality. Although it is difficult to satisfy individual personalities it is important for marketers to know various personalities of their target market so as to satisfy the customers' needs and wants, and thus gain a competitive advantage over their competitors who are likely to provide a substitute service or products to the same consumers Mittal and Sheth (2004).

Self Concept represents the totality of the individual's thoughts and feelings having reference to one's self as an object. Consumers link/associate themselves with symbols that are on par with their self-concept, which they interpret form the surrounding symbolic environment. There are various types of self concept such as: actual self, ideal self, social self, ideal social self, expected self, situational self, extended self and possible selves. Marketers need to distinguish these different self-concepts when marketing their products or services Moven and Minor (1998).

Lifestyle refers to the manner and/or way in which individuals or families live, represented by their interests, activities and opinions. People's lifestyles are dynamic; they change with age and with socialization with different cultures. Consumer can be measured by psychographics analysis.

This technique is useful for marketers when segmenting and targeting consumers. It is therefore crucial for marketers to know whom they are dealing with in terms of lifestyle before even developing a product or service.

## 2.8 Social Factors Influencing Consumer Behaviour

Apart from individual factors influencing consumer behaviour, other factors influencing consumer behaviour are social factors. The social factors include culture, subculture, reference groups, opinion leaders, family and social class.

### 2.8.1 Culture

Culture refers to a complex of symbols and artifacts created by a given society and passed on from generation to generation as determinants and regulators of human behaviour, Stanton et al., (1992). Culture also refers to values, beliefs and symbols that group's shares according to Sirsi et al., (1996)

Culture is environmentally orientated. Culture operates to affect consumers in various ways, the model below (figure 2.4) serves to clarify what the role of culture in consumer behaviour. Kolb's model shows critical components affected by culture culture. Culture values widely researched and validated are the individualistic and collectivist ones. These two values differ significantly in their self-expression and social relationships and these differences influence the efficacy of marketing strategies (Kolb et al., (2002).

Individualists are said to value their independence and self-sufficiency and think in terms of "I", while on the other hand collectivist's culture behaves in accordance with social norms present in the group and thinks in terms of "we". The collectivists' members feel the need to belong, fit in and engage in actions that will gain the group's approval thus evoking social harmony (Kolb et al., (2002).
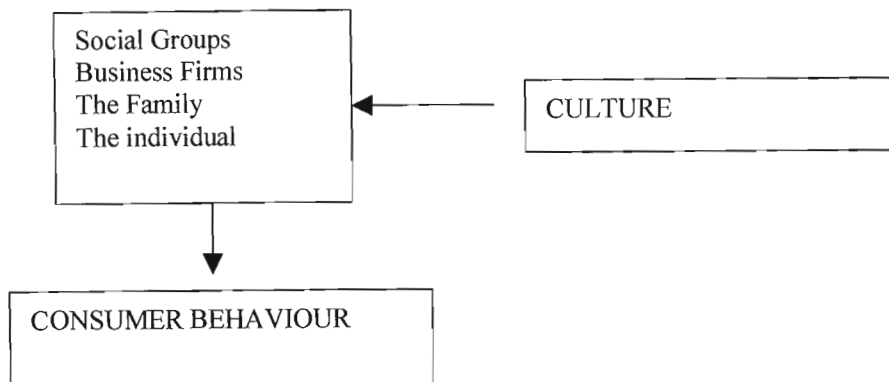
**Figure 2.4 The Role of Culture in Consumer Behaviour**

Adapted from Kolb et al., (2002), p.79: "Marketing Management-Book 3: Specific Topics in Marketing", Natal Business School Publishers

The collectivists are therefore likely to adopt brands simply because their role models (may be family members, social groups or respectable member of society for example a teacher, a lawyer or any other respectable member of the community) advocate them. This assertion does not however, discount the fact that culture can be learned.

Technological change contributes enormously to cultural change e.g. internet access is affecting culture in the way consumers shop, expanding their choice options and facilitating speed around voicing of complaints. It is therefore important for marketers to realize that cultural norms will change continuously because of people's evolving needs mainly driven by the unquenchable desire to follow new social patterns. As communities' adopt the multi – channel approach to transacting with traders so will cultural changes occur. Understanding of the various characteristics of culture aid marketers in designing products that have specific associations with the consumers

There are various characteristics of culture, namely, the invisible hand of culture, culture satisfies needs, culture is learned, culture is shared and culture is dynamic. Each culture has its own norms, symbols and rituals with which marketers can associate their products and services. Culture therefore serves as a function to prescribe and set rules of

behaviours and acts as an enforcer of group standards, thus forcing prescribed types of behaviour on an individual Mittal and Sheth (2004).

## 2.8.2 Sub-Cultures

A subculture is defined as a division of a national culture that is based on some unifying characteristics, such as social status or nationality and whose members have similar patterns of behaviour that are distinct form those of the national culture (Arnold 1979).

There are four subcultures, which exist within a culture, namely, race, religion, geographical area of residence and nationality. These sub-cultures are further divided into four smaller sub-cultures i.e. age, language, interest and occupation.

Lamb, et al., (1998) state, that subculture differences may result in considerable variation within a culture in what, how when and where people buy goods and services. Members in the sub-culture are different from other members of the society because of their beliefs, values and customs. With regard to the age element of the sub-culture, as people move through their life cycle, they undergo predictable changes in values lifestyles and consumption patterns that are of utmost importance to marketers.

## 2.8.3 Social Classes

A social class can be defined as identifiable groups of individuals whose behaviour and lifestyles differs form those of members of other classes. Therefore marketers must understand the needs and wants of each social class in order to market their products effectively to them.

## 2.8.4 Reference Groups

Reference groups are defined as formal or informal groups (one or more people) that influence a person's attitude values and behaviours. It is used as a basis or a guide for comparison or point of reference in forming responses and performing behaviour. Reference groups possess social powers to influence behaviours of others.

Reference groups affect buyer behaviour in three ways, viz. *value expressive influence* – this operates when one accepts influence from another agent with whom one identifies thus allowing one to act as if one was actually the agent e.g. express values on health, environment, etc.

*Normative or utilitarian influence*- the members wear the same type of brand name clothing, bank at the same bank and even shop at the same retail outlets; and

*Informational influence*- accepts opinions of group members as credible.

According to Lamb et al., (2000) all reference groups have their own distinct norms, values and customs to which each member is expected to conform in order to prevent any type of sanction being applied against them. For various types of reference groups see figure 2.5 below:
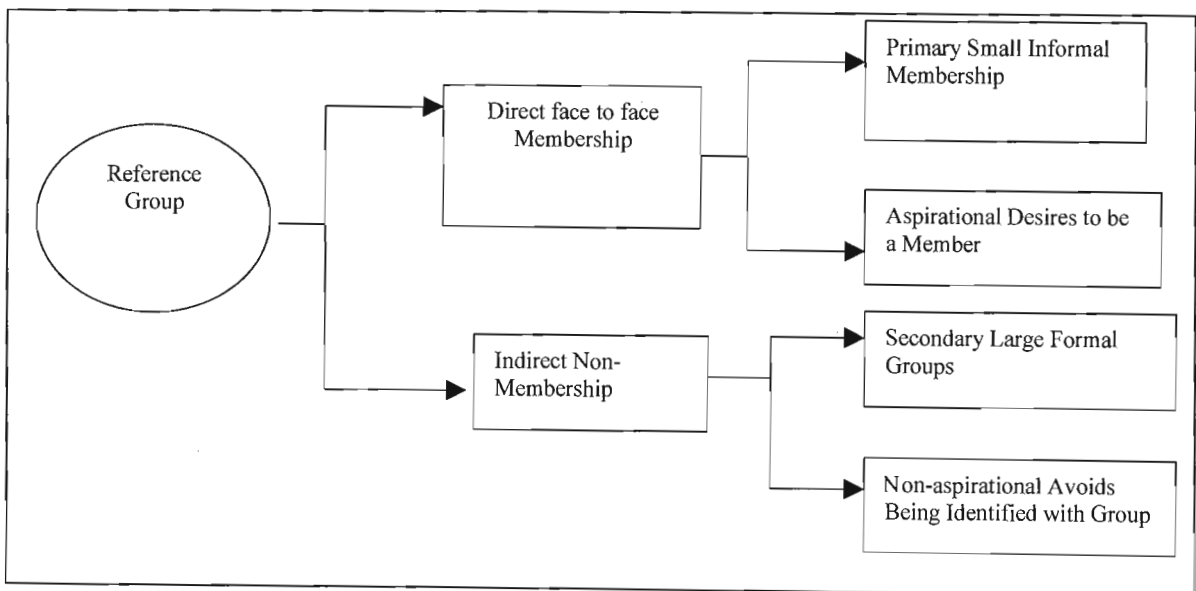


**Figure 2.5 Types of Reference Groups**

Adapted from Lamb et al., (2000) "Marketing" New York: Oxford University Press, p.88

### 2.8.5 Opinion Leaders

These are individuals in a reference group who influence the attitudes of others. They often possess outstanding achievement records, are very knowledgeable, posses a high level of interest in certain aspects and are new product or service indulgers. They are trendsetters and have a desire to be unique. Opinion leaders motivate individuals to adopt certain self-image and lifestyle Mittal and Sheth (2004).

### 2.8.6 The Family

According to Mittal and Sheth (2004), a family is a group that an individual is closest to and with whom they spend most of their childhood learning experiences.

A family can be regarded as a nuclear group whose members live in close contact with one another and act as a decision making unit when they attempt to satisfy individual needs from one shared source (the family income). One's family strongly influences the values, attitudes and buying behaviour.

However, consumption patterns changes as one moves through the family lifecycle stages as evidenced in figure 2.6 below, which reflects family life cycle and examples of consumption patterns.
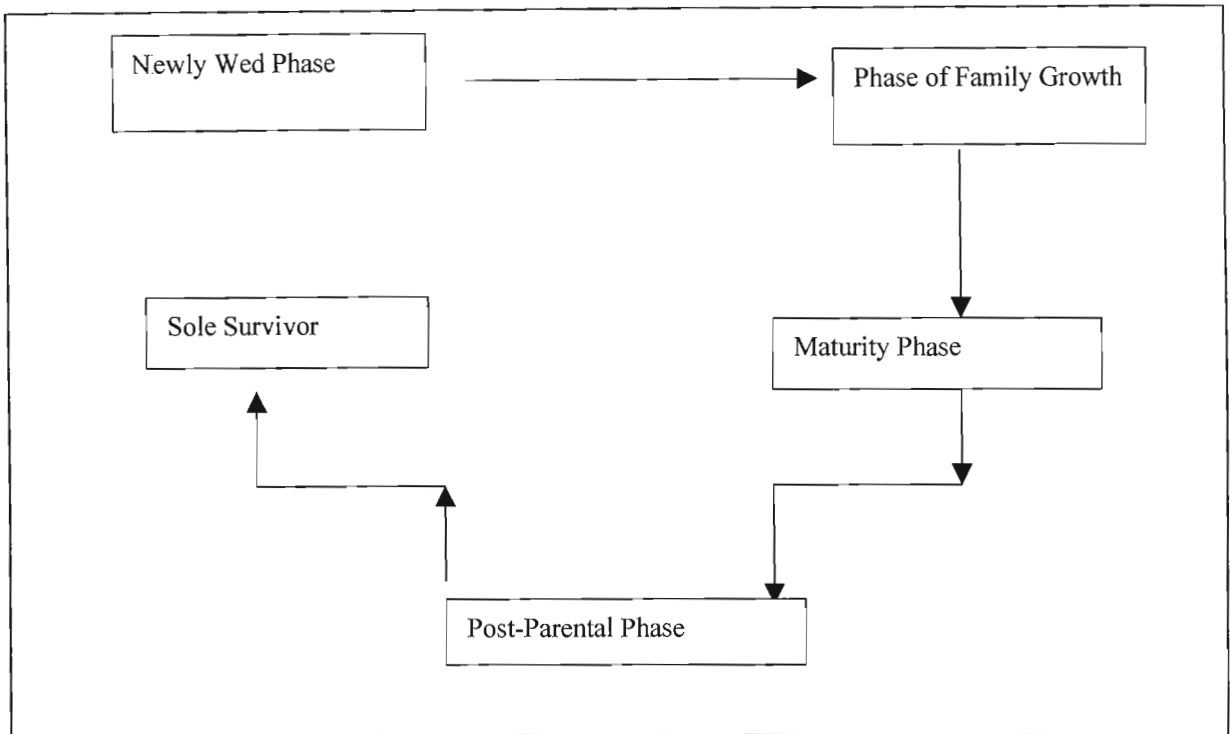
**Figure2.6 Family Life Stages and Examples of Consumption Patterns**
Adapted from Kolb et al., (2002), p.89: "Marketing Management: Book 3: **Specific Topics in Marketing",
Natal Business School Publishers.**

Decision making roles among family members tend to vary dependent on the type of the item purchased, the price and the level of involvement. Factors affecting decision making in the family are the ability to persuade, power within the family, family relationships, expected outcome of negotiations and family income (Mittal and Sheth 2004).

Role differentiation and family life cycle stages are important to marketers when developing marketing strategies (Strydom et al., 2000). For role differentiation and the influences exerted by the family members on decision-making in the family see the table below:

| Roles | Family members |
|---|---|
| The initiator is the person who makes the first suggestion regarding products to be purchased | Teenagers often acts as initiators |
| The influencer is the person who implicitly influences the final decision because this person's suggestions and wishes are reflected in the ultimate decision made by the family | Children's preferences (e.g. for certain types of cereal) influences the family's decision making |
| The decision maker is the person who actually chooses between the alternatives and makes the decision | This is usually the mother or the father |
| The purchaser purchases the products | It is usually the mother's responsibility to purchase groceries |
| User is the person who actually uses the products | The baby consumes the vegetable puree purchased by the mother |

**Table 2.1 Role Differentiation in Decision- Making in the Family**
Adapted from Strydom et al., (2000) "**Marketing Management**" 4th edition, Cape Town: Juta & Co. Ltd p.92

## 2.9 Purchase Situation's Influence on Consumer's Buying Decisions

The purchase situation will also determine what the consumer selects based on the needs and motivations, preferences and benefits sought. The five variables of the consumer's buying behaviour that affect the purchase situation are: the reason, the time, physical surroundings, the terms and conditions of the purchase and the conditions under which the consumers purchase i.e. state of mind and mood. Once the consumer has gone through these factors he/she is ready to go through consumer decision-making Strydom et al., (2000).

## 2.10 Consumer Decision-making Process

In making a buying decision, consumers usually go through a 5-step process of problem recognition, information search, evaluation of alternatives, purchase and post purchase evaluation. It is important to note that a consumer may not necessarily always follow these steps systematically; one can skip a stage, withdraw from any of the stages prior to actual purchase or may go through all the stages and eventually decide not to purchase (Strydom et al., 2000). Consumer buying decisions fall into three broad categories: Routine response behaviour, Limited-Decision making and Extensive decision-making.

This Buying Process is clearly depicted in figure 2.7 over the page:

```
┌─────────────────────────────────────────────────────┐
│  ┌──────────────────────────────────────────┐       │
│  │ Individual and Social factors and Buying  │       │
│  │ Situations                                 │       │
│  └──────────────────────────────────────────┘       │
│        ↓          ↓          ↓                        │
│  ┌──────────────────────────────────────┐            │
│  │         Problem recognition          │            │
│  └──────────────────────────────────────┘            │
│               ↓                                       │
│  ┌──────────────────────────────────────┐            │
│  │         Information Search           │            │
│  └──────────────────────────────────────┘            │
│               ↓                                       │
│  ┌──────────────────────────────────────┐            │
│  │      Evaluation of Alternatives      │            │
│  └──────────────────────────────────────┘            │
│               ↓                                       │
│  ┌──────────────────────────────────────┐            │
│  │             Purchase                 │            │
│  └──────────────────────────────────────┘            │
│               ↓                                       │
│  ┌──────────────────────────────┐                    │
│  │    Post purchase decision    │                    │
│  └──────────────────────────────┘                    │
└─────────────────────────────────────────────────────┘
```
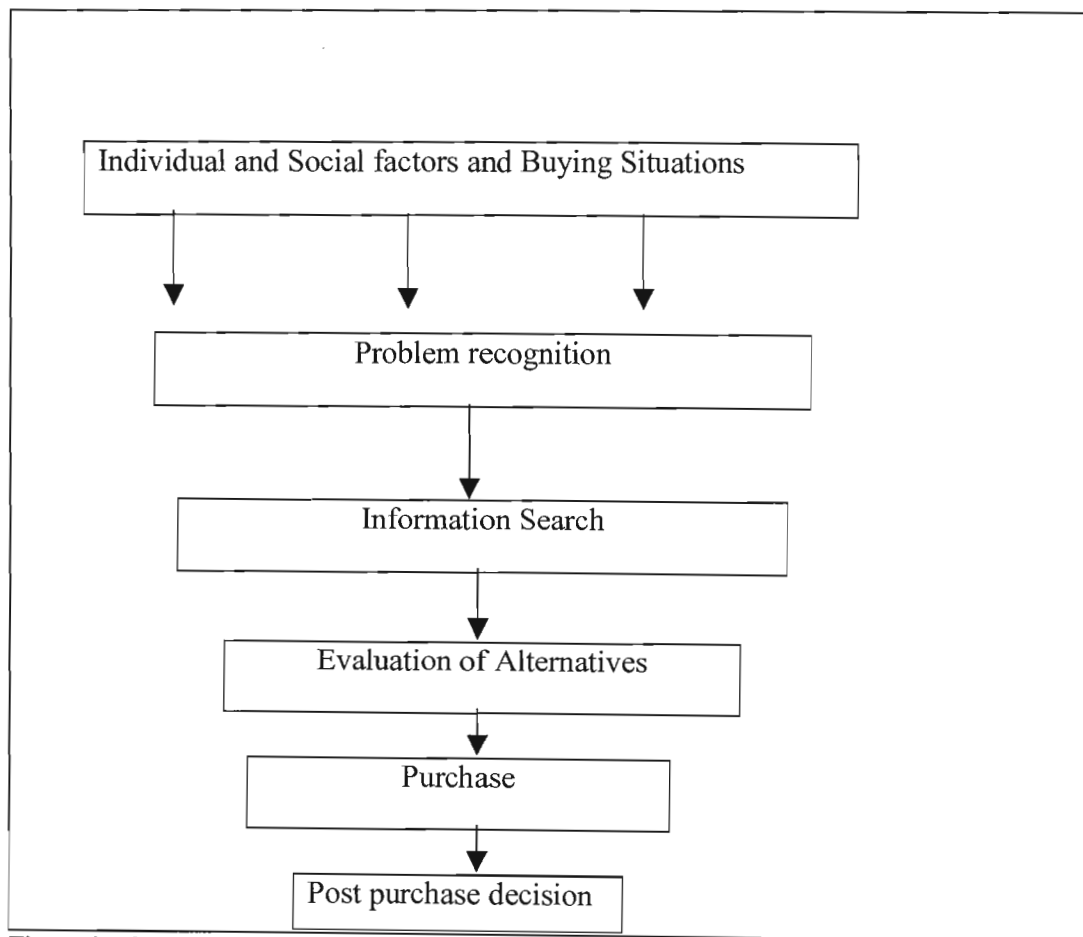
**Figure 2.7 Stages in Purchase Decision Making Process.**
Adapted from Kolb et al., (2002), p.91: "Marketing Management: Book 3: **Specific Topics in Marketing**", **Natal Business School Publishers**

## 2.11 Importance of Consumer Behaviour

In the competitive world we have today, only the firms that research and understand their customer well, their values, and how as a business they judge and find those values in the market place will have sustainable competitive advantage. Therefore researching and having comprehensive understanding of customer behaviour is important and can contribute to the success customer experience strategic implementation for an organization.

According to Sheth and Mittal (2004) the conceptual framework on researching customer behaviour is be described as depicted by the figure 2.8 below.
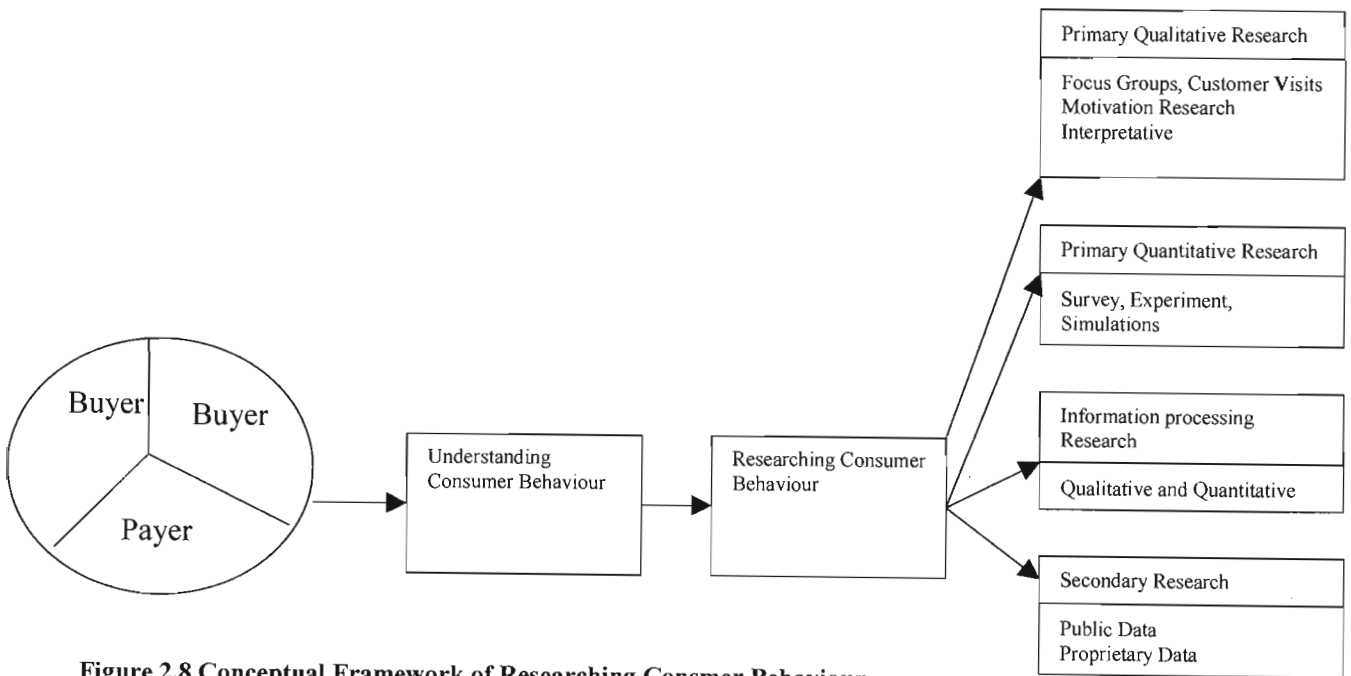


**Figure 2.8 Conceptual Framework of Researching Consmer Behaviour**

Adapted from Sheth and Mittal (2004), 2nd Edition, p.231: "**Customer Behaviour: A    Managerial Perspective**".

In order to understand the consumer better, the marketer has to conduct research that sought to elucidate behaviour of the target consumers or potential customers. This research may either be conducted through collecting Primary data and analyzing this data in order to make a logical inference. Other approaches to researching consumer's behaviour include use of focus groups or customer visits. Primary quantitative research (survey, experiment and simulations); information search (both qualitative and quantitative) and secondary research can be used as well.

A Focus groups, relates to a small group of customers assembled in a room where a facilitator of the group steers the group discussion along certain questions of interest to the marketer or a product manager. Customer visits relates to visiting of consumers or customers in order to observe and discuss total customer experience within a business with the customers. This may include visiting manufacturing plants such as Toyota, Volks Wagen, and Production Plants such as South African Breweries, a Financial Institution in this case FNB and Coca-cola for example. Other methods may include Interpretative_research where a researcher observes customer or group of customers in their natural work environment and record as well as interpret the behaviour based on extensive understanding of social and cultural characteristics of that work setting.

## 2.12. Conclusion

This chapter attempted to look at individual factors influencing consumer behaviour in commercial markets. These included motivation, learning, personality, social factors influencing consumer behaviour and the three determinants for customer behaviour being Perception, Attitude and Customer decision-making processes.

The behaviour of customers/consumers of similar characteristics i.e. demographics, psychographics, lifestyle, life stage, behavioural and geographical provide a microcosm that business can work with in determining value propositions for specific market segment. Value propositions play a critical role in building comprehensive service and product offering that gives an organization the necessary competitive advantage.

The integrated offering for example, product i.e. quality of the product and its packaging, pricing for example value for money, channel of delivery (multiple channel that brings convenient interaction of customers with a bank for example internet or ATM channel allowing extended banking hours), competency of staff i.e. the knowledge skills and attitude plays a critical role in building affinity for a specific brand. Product innovation also plays a critical role in helping build competitive advantage of a company.

Therefore the comprehensive understanding of consumer behaviour will enable FNB retail to have a clear marketing strategy that utilizes powerful and appealing stimulus that will enhance customer experience throughout the mapped customer journey. Customer journey refer to mapping of excellent customer experience throughout all typical areas that a customer interface with the organization before coming over to a bank. For example, at home the customer may have read in print media or may have seen an advertisement on TV about any financial solution that appeals to them at the time for example, international money transfer product.

A well-mapped customer experience has a clearly defined customer journey that starts whetting customer appetite of the offering through use of print adverts in newspapers or through use of brochures that could have been disseminated at the shopping malls. The journey will move through to a billboard advertisement talking some more to the customer about the offering and through to the inside of the branch where a caring Information Consultant offers customer assistance.

Now that consumer behaviour insights and how they influence decision to pay attention to certain stimuli or not to been shared, it is perhaps necessary to look at the empirical analysis of the role of emotional satisfaction on service encounters and determine the correlation coefficient between the key concepts for example, service quality, customer loyalty, and relationship quality. In addition, the analysis will seek to clarify the role of emotional satisfaction in predicting customer loyalty, and relationship quality.

# CHAPTER THREE

## Research Methodology

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## 3.1. Introduction

In this chapter a model is used to clarify the role of emotional satisfaction in predicting customer loyalty, and relationship quality. Departing from the review of consumer behaviour insights that shared numerous dynamics informing consumer behaviour the research model shown in this chapter (figure 3.1) takes the study to the next level and focuses on the relationship between service quality and emotional satisfaction, and how relationship quality improves as a consequence of emotional satisfaction. Both service quality and relationship quality play a critical role in driving customer loyalty that brings about improved customer profitability for a business operation. Figure 3.1 illustrates the interconnectedness of these aspects or factors driving or determining customer loyalty with a business entity.
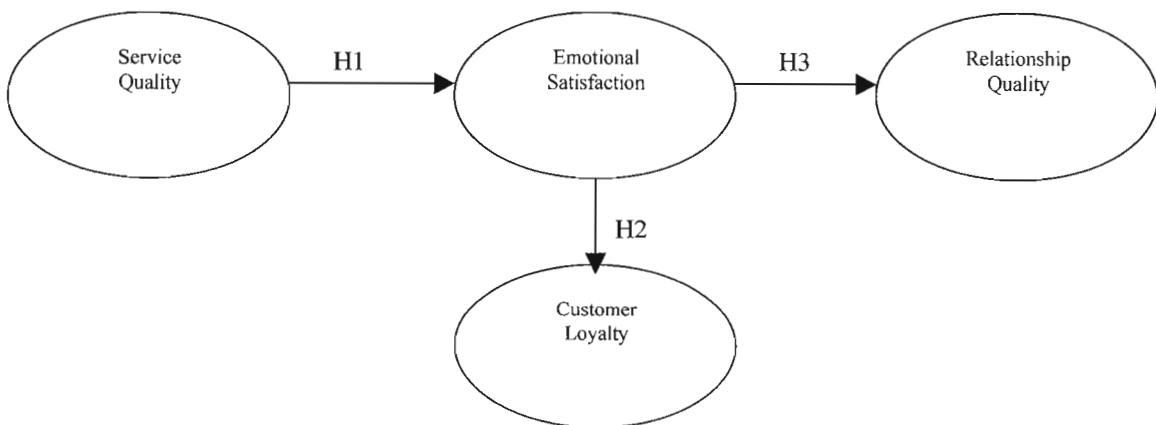
Figure 3.1 Research Model

## 3.2 Objectives of the Study

The objectives of this study as discussed earlier in chapter one are as follows:

- To empirically examine the role of emotional satisfaction (core component of customer experience) in service encounters.
- Investigate the relationship between emotional satisfaction and key concepts such as service quality, customer loyalty and relationship quality.
- To clarifying the role of emotional satisfaction in predicting customer loyalty and relationship quality.
- To use as a context the relationship between emotional satisfaction, service quality, customer loyalty and relationship quality as well as data from a sample survey of 1,261 Inland West FNB retail customers' evaluation of the branch transacting experiences to address strategic issues.
- To establish if the customers' feeling of enjoyment serve as the best predictor of customer loyalty.
- To find out if feelings of happiness serve as the best predictor of relationship quality.

The empirical analysis will set out to answer the all the questions stated in the problem statement as well as exhaust all the objectives it initially set out to achieve as listed above.

## 3.3 Sampling Technique and Description of the Sample

The role of emotions in the sales and service business environment has been widely discussed by researchers for some time. For example, Oxenfeldt (1974) explains that customers will have both opinions and feelings towards certain sales and service institutions that will influence their perceptions. Donnvan and Rossiter (1982) suggest that emotional states of customers can affect their retail patronage, bank search, interactions with bank staff and in-branch behaviours. Specifically, the focus of this study

is to investigate the relationship between emotional satisfaction, service quality, customer loyalty, and relationship quality within a retail banking setting.

Inland West Branches were chosen as the study site because of the more complex set of issues involving customer –contact employee interaction (Mishra, 2000). In addition, having a narrowed focus on a single industry can ensure a high level of internal validity. Despite that, it can be argued that the focus on a single industry may make results less generilizable. However, within a retail banking setting, there are many different departments, ranging from sales, service, advice (financial advice) and cash.

A total of nine FNB branches participated in the study. Out of the eight branches, One branch was located in mall area i.e. Westgate, the other two located in the central business district (Florida and Krugersdorp) the smaller five i.e. Princess Crossing, Hillfox, Florapark, Industria and Key West were located in the outer metropolitan areas. A widespread sample was adopted with the intent to reduce any potential socio-economical and or geographical sampling biases. A total of 1,261 customers were surveyed. The researcher intercepted every third FNB customer leaving any of the Inland West branches. The customer was asked whether he or she was willing to participate in the survey, all refusals were recorded for information purposes only.

The survey was self-administered by interested participants who were given a chair in a quite area near the branch exit. Subsequently, customer and non-customers were also given a choice to take away the survey and return it in a reply paid, FNB-addressed return envelope within a five-day period. Adopting this approach, an overall response rate of 44.8 percent was generated. As seen Table 3.1, most of the respondents were between 41 and 50 years of age (27.6 percent), with a ratio of 87 women to 13 men. 33 percent of the respondents transacted at a branch for quality of its service, while 24 percent transacted at a branch for its in-store promotion. A swipe and win campaign was conducted during the pilot phase. This created great interest and drew traffic into FNB branches.

As discussed earlier the sampling technique employed in this study is the probability or representative sampling. The sample size of 1,261 has been chosen in order to achieve a 2% margin of error as the total customer base in Inland West Area was estimated to be in the region of about 10,000 at in the period leading to 2005 (Saunders, Lewis and Thornhill, 2003).

### 3.4 The Research Instrument

### 3.4.1 Description and Purpose

The means through which data will be collected is a structured questionnaire and personal interviews where necessary. A questionnaire refers to self-reported instruments where the respondents write their answers to printed questions on a document (Saunders, Lewis and Thornhill, 2003). Closed-ended questions provide respondents with specific alternatives to contrast to open-ended questions, which allow participants to answer in the way that they want. This hopefully provides detailed respondent's view thus allowing the researcher to gain intimate understanding of the varying respondent's perceptions on the subject matter. For this reason, a section of the questionnaire will consist of a few open-ended questions.

Exploring secondary data will provide valuable information in understanding the research dilemma. Information needed for the research study will also be analyzed from various sources of information. The questionnaire is aimed to target mainly the present and later the future FNB branch banking customers.

### 3.4.1 Construction of the Questionnaire

The construction of the questionnaire will have four sections. Section one of the questionnaire is constructed to discern how strong do respondents agree or disagree with the overall service quality delivered by branch xyz in Inland West Area.

Section two of the questionnaire is concerned with respondents' emotional satisfaction with branch service at branch XYZ. The respondents are requested in this section to

circle one number (scale of one to seven) to indicate the degree to which they are pleased, unhappy, disgusted or enjoyable.

In section three the questionnaire is concerned with respondent's loyalty towards a certain branch within Inland West area. The respondents are requested in this section to circle one number from 1 (strongly disagree) to 7 (strongly agree) for each of the set statements in that section.

The last section, that is section four, is concerned with establishing respondents' relationship with certain FNB branches. They respondents are requested to circle 1 confirming that their relationship with a particular branch is very weak to 7 (very strong) for each of the statements reflected in that section.

### 3.4.2 Pre-testing and Validation

To remain consistent with the past research, the measures were selected from previous studies in marketing, management and psychology an aspect that links to consumer behaviour theory.

### 3.4.2.1 Service Quality

A four-item overall service quality scale was employed (Dabholkar et al., 2000). Customers were asked to indicate their feelings on the following seven-point Likert-type scales – in terms of service delivery, FNB retail branch of their choice: "Has an excellent overall service", "Has a service of very high quality", and "Delivers superior service in everyway". Conbach's alpha coefficient of reliability for this component measure of overall service quality was 0.96.

### 3.4.2.2 Emotional Satisfaction

The measure adopted by Reynolds and Beatty (1999) was used to capture emotional satisfaction. Similarly, customers were asked to indicate their feelings with respect to transacting at a specific FNB branch on a seven-point Likert-type scale along measures of

emotions such as: "pleased/ displeased"," unhappy/happy", "disgusted/contented", and "enjoyable/frustrating". The composite reliability coefficient for the emotional satisfaction measure was 0.86.

### 3.4.2.3 Customer Loyalty

A four-item customer loyalty scale was adopted. Using a seven-point Likert-type scale, customers were asked to indicate their loyalty towards a branch along the following: "I say positive things about a specific FNB branch to other people", "I recommend a specific FNB branch to someone who seeks my advice", "I encourage friends and relatives to transact at a specific FNB branch", and "I consider a specific FNB branch my first choice in the next few years". The composite reliability alpha of the scale was 0.92.

### 3.4.2.4 Relationship Quality

To measure customer's evaluation of relationship quality, a two-item direct relationship quality scale was developed.

Customers were asked to state their overall assessment of the quality of their relationship with the contact employee and the company on a seven-point Likert scale. Cronbach's alpha coefficient for this component measure of relationship quality was 0.90, thus suggesting adequate reliability.

### 3.4.3 Administration of the Questionnaire

A total of 1,261 customers were surveyed. The researcher's approach was to intercept every third FNB customer leaving any of the Inland West branches. The customer was asked whether he or she is willing to participate in the survey, and recorded all refusals.

The survey was self-administered by interested participants who were given a chair in a quite area near the branch exit. Subsequently, customer and non-customers were also given a choice to take away the survey and return it in a reply paid, FNB-addressed return envelope within a five-day period. Adopting this approach, an overall response rate of

44.8 percent was generated. As seen Table 3.1, most of the respondents were between 41 and 50 years of age (27.6 percent), with a ratio of 87 women to 13 men. 33 percent of the respondents transacted at a branch for quality of its service, while 24 percent transacted at a branch for its in-store promotion. A swipe and win campaign was conducted during the pilot phase. This created great interest and drew traffic into FNB branches.

## 3.5 Conclusion

This chapter attended to the question of research methodology and set out to clarify the objectives of the study and the sampling technique used. A research model used in this study was discussed thus clarifying the role of emotional satisfaction in predicting customer loyalty, and relationship quality as well as all other key focus areas discussed in the objectives section earlier in this chapter as well as in chapter one.

# CHAPTER FOUR

## Presentation of Results

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## 4.1 Introduction

All measures were analyzed for reliability and validity following the guidelines offered by Anderson and Gerbing (1988) and Joreskog and Sorbom (1989). The resulting measurement model $x2(71)$ was 345.33, p=0.000. All composite reliabilities for the multi-item scales were above 0.86. Convergent validity was assessed by the significance of the loading, Anderson and Gerbing, (1988). All of the loadings in the model were significant (see table 1 in the appendix).

Discriminant validity was assessed by testing if the correlations between the scales were significantly different from one (Bagozzi et al., 1991). The test is conducted by estimating the fit of a model when the inter-construct correlation is constrained to one and then estimating the same model with the inter-construct correlation free to be estimated. The test statistic is the difference in chi-square values with one degree of freedom. The chi-square differences ranged between 449.80 and 3779.77 (p<0.001), hence the discriminant validity was established.

## 4.2 Descriptive Statistics

Table 4.1 below shows the descriptive statistics, means, standard deviations, and inter-correlations for all constructs. The proposed model was assessed using LISREL 8 (Joreskog and Sorbom, 1993). The results of which are shown in table 4.2. and figure 4.1 in the next page. The results shared in table 4.2 and figure 4.1 indicates support for the entire three hypothesis associated with the proposed model.

| Construct | Min | Max | Mean | SD | α | OSQ | ES | CL | RQ |
|---|---|---|---|---|---|---|---|---|---|
| Overall service quality | 1.00 | 7.00 | 5.00 | 1.06 | 0.96 | 1.00 | | | |
| Emotional satisfaction | 1.00 | 7.00 | 5.12 | 1.09 | 0.86 | 0.567* | 1.00 | | |
| Customer loyalty | 1.00 | 7.00 | 4.40 | 1.26 | 0.92 | 0.558* | 0.518* | 1.00 | |
| Relationship quality | 1.00 | 7.00 | 4.32 | 1.23 | 0.90 | 0.527* | 0.488* | 0.643* | 1.00 |
| Note Correlation is Significant at the 0.01 Level (2-tailed) | | | | | | | | | |

**Table 4.1 Descriptive Statistics, Means, Standard Deviation and Inter-correlations**

Given the significant relationship between emotional satisfaction (a central component of customer experience) and both service quality (t=21.84, p<0.001) and customer loyalty (t=20.06, p<0.001) as reflected in table in table 1 of the appendix, FNB need to pay particular attention to how customers feel during the service delivery process. Consequently, being well informed about the feelings of customers can bring forth valuable management initiatives.

To achieve this, employees can be trained to observe evoked emotions in customers and to report them to the organization. The role of consumer behaviour models in literature review also provided some insights into understanding what influences the customer's buying process. The comprehensive understanding of customer dynamics can increase the potential for imposing a significant and positive impact on customer loyalty and relationship quality.

Not surprisingly, emotions play a critical role in the customer –contact employee interaction. Moreover, Czepiel and Gilmore (1987) suggest that human interactions are always more engaging than impersonal ones, and that it is possible for a customer to display mixed attitudes towards a service firm and its employees. In line with previous findings Bagozzi et al., 1999; Liljander and Strandvik, (1997), this study generally supports the connection between emotions and behaviour.

Indeed, feelings take on monetary worth as customers' emotions display often influences their future behavioural intentions such as intent and word-of-mouth advocacy.

| Path direct effects | | | Standardized estimate (t-value |
|---|---|---|---|
| H1. H2. H3. | Service quality ⟶ Emotional satisfaction Emotional satisfaction | Emotional satisfaction Customer loyalty Relationship quality | |

**Table 4.2 Results of Proposed Research Model**

Notes x2(71) was 867.10, (p=0.000); GFI =0.91; AGFI =0.87; CFI =0.96

The proposed model shown in figure 4.1 (next page) was assessed using LISREL 8 as indicated earlier (Joreskog and Sobom,1993). Figure 4.1 presents evidence in support for all of the three hypotheses as mentioned. The model's fit was acceptable x2 (71) was 867.10, (p =0.000); GFI =0.91;AGFI =0.87; CFI =0.96; RMSEA =0.092; RMR =0.094.
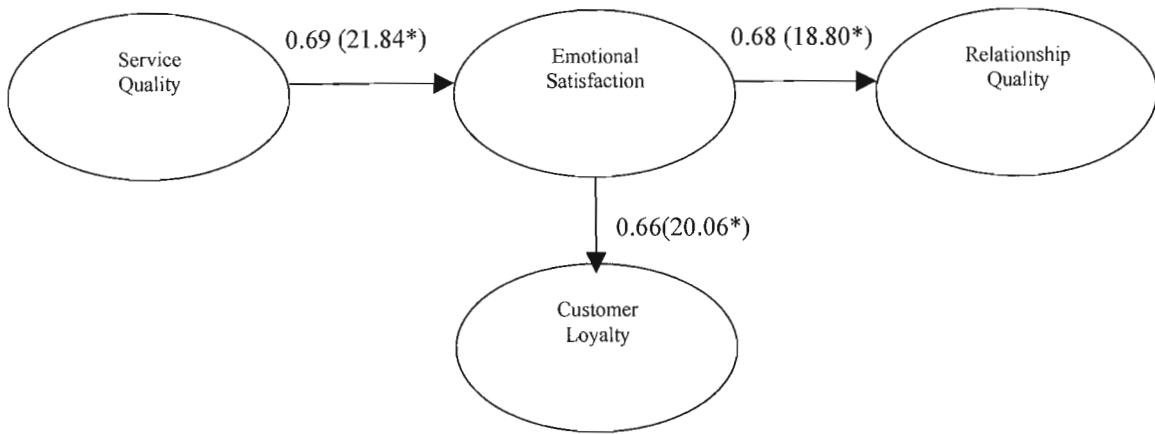
**Figure 4.1 Advance Research Model**

Basically the model above depicts that all the hypothesized relationships were supported. The hypotheses were service quality and its positive association with emotional satisfaction, as predicted earlier and emotional satisfaction and its positive association with customer loyalty and relationship quality, as hypothesized.

## 4.3 Investigating the Role of Emotional Satisfaction

To investigate the role of emotional satisfaction in predicting customer loyalty and relationship quality, multiple regression analyses were conducted. In the first regression, customer loyalty, as the dependent variable was regressed against the undependable variables of emotional satisfaction: "pleased/displeased"; "unhappy/happy"; "disgusted/contented"; and "frustrated/enjoyable". In the second regression, the test was re-run using relationship quality as the dependable variable. The results of the multiple regression analyses are displayed in Table 4.3 and 4.4.

|  | β | t | Sig. |
|---|---|---|---|
| Pleased/displeased* | 0.183 | 5.40 | 0.000 |
| Unhappy/happy | 0.174 | 4.51 | 0.000 |
| Disgusted/contented | 0.109 | 2.89 | 0.000 |
| Enjoyable/frustrating* | 0.203 | 6.25 | 0.000 |

**Table 4.3 Standardized β Coefficients (Dependent variable: Customer Loyalty**

Notes: adjusted R2 (2 is an exponent) =0.319, f(4,1173)=109.06, significance=0.000;*denotes reverse-scored items

The results in table 3.10 indicate that a customer's feeling of frustration or enjoyment with regard to transaction at the designated FNB's customer experience branch is an important predictor of customer loyalty The adjusted R2=0.319 and F(4,1173)= 109.06, significance =0.000. On the other hand, as can be seen in Table 3.10, the extent to which a customer feels unhappy or happy is an important predictor of relationship quality. Accordingly, the adjusted R2=0.243 and F (4,1169)=94.01, significance=0.000.

|  | β | t | Sig. |
|---|---|---|---|
| Pleased/displeased* | 0.119 | 3.31 | 0.000 |
| Unhappy/happy | 0.253 | 6.20 | 0.000 |
| Disgusted/contented | 0.070 | 1.76 | 0.000 |
| Enjoyable/frustrating* | 0.135 | 3.92 | 0.000 |

**Table 4.4 Standardized β coefficients (Dependent Variable: Relationship Quality)**

Notes: adjusted r2=0.243, F (4, 1169) =94.01, significance=0.000;* denotes reversed scored items.

## 4.4 Statistical Analysis of the Data

The table below (table 4.5) set the scene by presenting some demographic data that describes the age bands of the respondents in this survey. The data reveals a mix of respondents ages with the 61 and over as well as the under 20 representing the smallest of the sample frame. The significant majority lied in the age bands of 41-50 representing 27.6% followed by those whose age is between 31-40 representing 23% of the sample frame. An insignificant percentage of 0.3% was not stated therefore in the majority of cases the age bands of the respondents were known. This thus helps present an accurate picture of the diverse age group views when analyzing responses on the questionnaires.

| Response category | Frequency (N=1,261) | Percentage of total (100 percent) |
|---|---|---|
| Age | | |
| Under 20 | 92 | 7.3 |
| 20-30 | 257 | 20.4 |
| 31-40 | 296 | 23.5 |
| 41-50 | 348 | 27.6 |
| 51-60 | 192 | 15.2 |
| 61 and over | 72 | 5.7 |
| Not stated | 4 | 0.3 |
| Total | 1261 | 100 |

**Table 4.5 Demographic Breakdown of Sample Size**

The table 4.6 below continues to depict lack of biases for a specific group of respondents. This part of the information is an extension of the demographic information showing various income groups that were included in the sample frame. This table information indicates the highest prevalence (21%) of income bracket R40, 000 to R60, 000 followed by the R20, 000 –R40, 000 income bracket representing 19% of the sample frame. It is important to note however that the highest income bracket represented the smallest sample frame of 4.3% and 6.3% for income brackets R100, 001-R120, 001 and more than R120, 001 respectively. This is probably due to the fact that the higher income groups are not branch banking users. They normally utilize cheaper electronic banking channels such as internet banking, ATM's and Cell phone banking. Only 15% was not stated.

| Response category | Frequency (N=1,261 | Percentage (100) |
|---|---|---|
| Household income (R, PA ) | | |
| Less than 20,000 | 134 | 10.6 |
| 20,000-40,000 | 237 | 18.8 |
| 40,000-60,000 | 265 | 21.0 |
| 60,001- 80,000 | 171 | 13.6 |
| 80,001-100,000 | 126 | 10.0 |
| 100,001-120,001 | 54 | 4.3 |
| More than 120,001 | 80 | 6.3 |
| Not Stated | 194 | 15.4 |
| Total | 1,261 | 100 |

**Table 4.6 Income Bands of the Respondents**

Table 4.7 analyzes history of transaction in FNB branches in order to determine frequency of transactions from the respondents. This information is used to validate the finding derived from the questionnaires since the frequency of transactions will show to some extend respondents' knowledge of service encounters in those branches. In the past 12 months, 70.3 percent of the respondent transacted at a branch for more than 10 times.

Most of the respondents (72.6 percent) perceived a moderate to large advantage at the FNB branch over competitor's branches, while 40.4 percent of the respondents reported sales transactions of 20 percent of their overall branch transactions in the past 12 months at a branch.

| Transacting at FNB branch for past 12 months | Frequency (N=1,261 | Percentage (100) |
| --- | --- | --- |
| 1-2 times | 40 | 3.2 |
| 3-5 times | 118 | 9.4 |
| 6-10 times | 214 | 17.0 |
| More than 10 times | 887 | 70.3 |
| Not stated | 2 | 0.2 |
| Total | 1,261 | 100 |

**Table 4.7 Frequency of Branch Transactions for the Last Twelve Months**

The table below (table 4.8) reflects branch transactions frequency for the next 12 months. The table shows a predominant 70% with high frequency of transactions followed by a frequency of 6-10 times at 6% frequency. A mere 0.55 was not stated making all other cases stronger in that there were known frequency cases.

| Transacting at FNB branch for the next 12 months | Frequency (N=1,261 | Percentage (100) |
| --- | --- | --- |
| 1-2 times | 29 | 2.3 |
| 3-5 times | 107 | 8.5 |
| 6-10 times | 240 | 19.0 |
| More than 10 times | 879 | 69.7 |
| Not stated | 6 | 0.5 |
| Total | 1,261 | 100 |

**Table 4.8 Frequency of Branch Transactions for Twelve Months**

Duration of patronage as evidenced in table 4.9 shows an insignificant 0.5% of the not stated case thus increasing validity of all other cases. Over 60% of the respondents (signification majority according to the table) were transacting with Inland West branches for more than a period of ten years. An insignificant number of 2, 4% were new

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customers who were transacting in FNB's Inland West branches for less than a year. Therefore, the significant majority had adequate experience with service encounters within Inland West FNB branches.

| Duration of Patronage | Frequency (N=1,261 | Percentage (100) |
|---|---|---|
| Less than 1 year | 30 | 2.4 |
| 1-3 years | 86 | 6.8 |
| 4-6 years | 140 | 11.1 |
| 7-10 years | 216 | 17.1 |
| More than 10 years | 786 | 62.1 |
| Not stated | 6 | 0.5 |
| Total | 1,261 | 100 |

**Table 4.9 Duration of Respondents' Patronage**

The analysis of percentage of purchase can provide some pointers when it comes to the depth of customer relationship. Although product purchase can also be driven by knowledge and experience of the sales staff, in most cases product purchase and repeat sales goes hand in hand with client satisfaction of the entire service offering. According to table 4.10, 40% of the respondents bought 2 FNB products with just 1% having bought 10 products. More than 29% bought four FNB financial products. The table basically reflect a fair distribution of FNB financial product purchase by respondents indicating to some extent content with either the product it self or emotional satisfaction with the service encounter thus driving increased product sales.

| Percentage of purchase (FNB products) | Frequency (N=1,261 | Percentage (100) |
|---|---|---|
| 2 | 510 | 40.4 |
| 4 | 372 | 29.5 |
| 6 | 250 | 19.8 |
| 8 | 85 | 6.7 |
| 10 | 14 | 1.1 |
| Not stated | 30 | 2.4 |
| Total | 1,261 | 100 |

**Table 4.10 Percentage of FNB Product Purchase.**

## 4.5 Conclusion

This research empirically examined the role of emotional satisfaction in service encounters. This study used the relationship between emotional satisfaction, service quality, customer loyalty, and relationship quality as a context, as well as data from a sample survey of 1,261 Inland West's FNB branches customers focusing on their evaluation of branch transaction experience. The results showed that service quality is positively associated with emotional satisfaction, which both associated with customer loyalty and relationship quality.

Further investigations showed that customer's feelings of enjoyment serve as the best predictor of customer loyalty, while feelings of happiness serve as the best predictor of relationship quality. This chapter went on to discuss the research instrument used as well as reveal the construction of the questionnaire. This served the purpose of highlighting efforts to minimize biases from the sample frame used. This was achieved through inclusion of diverse variables from the population sample. The variables included, age bands income groups, transaction frequency, and patronage history as well as product purchase variables. From that section one gets to clarify the make up of the sample frame from which results of the study are inferred.

From these analyses one can learn that customers who transact at a branch may purchase additional financial products if his or her emotional state of being is positively enhanced in the service encounter. This in turn helps build strong customer relationship which helps drive client retention.

The finding implies the need for a sales and service organization to strategically leverage on the key antecedents of customer loyalty and relationship quality in its pursuit of customer and long-term profitability.

FNB retail bank needs to concentrate as an added focus on proper sales and service training in order to keep skills necessary to invoke great customer experience at service encounters. In addition, FNB should consider making a small capital investment such as adjusting the branch temperature to suit the prevailing climatic condition, lighting, and branch layout or design in order to appeal to their customers. These atmospheric additions would be well worth the effort as they positively influence customers' emotions and stimulate positive behavioural responses, such as repurchase intentions and positive word-of-mouth advocacy.

# CHAPTER FIVE

## Discussion of Results

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### 5.1 Introduction

This chapter provides a discussion of the research findings of the study. It is important to reiterate that an empirical examination of the role of emotional satisfaction in service encounters was conducted by this study. The relationship between emotional satisfactions, service quality, customer loyalty, and relationship quality were used as a context, as well as data from a sample survey of 1,261 respondents. The results comprehensively showed that service quality is positively associated with emotional satisfaction, which both associated with customer loyalty and relationship quality.

Not surprisingly, emotions play a critical role in the customer –contact employee interaction. Moreover, Czepiel and Gilmore (1987) suggest that human interactions are always more engaging than impersonal ones, and that it is possible for a customer to display mixed attitudes towards a service firm and its employees. In line with previous findings Bagozzi et al., 1999; Liljander and Strandvik, (1997), this study generally supports the connection between emotions and behaviour.

A significant relationship between emotional satisfaction and both service quality (t=21.84, p<0.001) and customer loyalty (t=20.06, p<0.001) was established in the analysis of results as shown in table 1 of the appendix. Management thus needs to pay particular attention to how customers feel during the service delivery process. Consequently, being well informed about the feelings of customers can bring forth valuable management initiatives.

To achieve this, employees can be trained to observe evoked emotions in customers and to report them to the organization. This behaviour will ensure mastery of correct or appreciated front line service approach that will ensure repeat at all times of great customer experiences.

The role of consumer behaviour models in literature review also provided some insights into understanding what influences the customer's buying process. The comprehensive understanding of customer dynamics can increase the potential for imposing a significant and positive impact on customer loyalty and relationship quality.

The significant role of emotional satisfaction in influencing behavioural intentions presents a new challenge to retailers. More importantly, retail bank should shift their efforts from a single concentration on certain financial products breadth, depth and quality, to include an emphasis on creating a pleasant and entertaining experience for customers who are interested in more than just a financial product. In doing so, retail banks can effectively position and distinguish their banks by building on the relationship between store atmosphere and customer's emotional states.

Fundamentally, this study has shown that attracting new customers costs organizations more than trying to retain existing ones (Griffin, 1998; Gronroos, 2001). Therefore, it seems feasible that managers should seek to enhance service quality and build customer loyalty by implementing customized customer-contact employee relationship programs (Beatty et al., 1996).

Successful customization in service encounters requires that the contact employee actively recognizes the subtle emotional cues from the customer and then adapts the service delivery accordingly (Bitner et al., 2000). These efforts are of great importance as evidenced in table 1 of the appendix, given the significant relationship between emotional satisfaction and relationship quality (t= 18.80, p<0.001), which suggests that customers' feeling of emotions can be experienced from the start of the service consumption process

to the termination of the service experience, and even long after the actual consumption has ended.

In addition, a pleasant experience can also encourage customers to build a more lasting relationship with a bank and seek to return. Accordingly, these feelings add on to customers' perceptions of how well the whole relationship fulfils the expectations, predictions, goals, and desires the customer has concerning the whole relationship.

Broadly conceived, the displayed emotions provided by customers are an important indicator of the overall service experience and give an employee a clear view of how the customers is likely to assess the customer-contact employee interaction. Specifically, the results showed that customer's feelings of enjoyment serve as the best predictor of customer loyalty (t=6.25, p<0.001), while feelings of happiness serve as the best predictor of customer of relationship quality (t=6.20, p<0.001 – see table 1 in the appendix).

Hence, a positive in branch experience induces a positive emotional state (i.e. enjoyment) and subsequent positive affirmative behaviour (i.e. customer loyalty), while a negative in-branch experience could nullify the influence of pre existing good feelings, and enhance a negative emotional state. In view of this, FNB retail bank should take the necessary steps to ensure that:

- Positive good feelings remain positive or become even more so; and
- Negative feelings change to become positive ones.

## 5.2 Conclusion

In a nutshell, the sales and service organizations such as FNB retail division should consider including emotional intelligence as a key component in customer-contact employee training in order to entrench the discipline within the organization. For example, mimetic or imitation responses to customer's emotional displays can be particularly effective when the customer is expressing enjoyment or delight. On the other hand, complementary responses are more appropriate in the case of frustration or anger.

Finally, from a strategic viewpoint, understanding and adapting to customer's emotional displays can help enhance the overall service delivery process provided by the organization, and this may be key to a successful differentiation strategy.

Given the array of products and service choices that customers have due to the parity among brands and technology, organizations should constantly strive to deliver unique and differentiable value in order to create a significant competitive advantage in the current marketplace.

# CHAPTER SIX

## Recommendations for Future Research

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### 6.1 Introduction

In the introductory stages of this research study, a discussion clearly setting out how to achieve the objectives below ensued.

- To empirically examine the role of emotional satisfaction (core component of customer experience) in service encounters.
- Investigate the relationship between emotional satisfaction and key concepts such as service quality, customer loyalty and relationship quality.
- To clarifying the role of emotional satisfaction in predicting customer loyalty and relationship quality.
- To use as a context the relationship between emotional satisfaction, service quality, customer loyalty and relationship quality as well as data from a sample survey of 1,261 Inland West FNB retail customers' evaluation of the branch transacting experiences to address strategic issues.
- To establish if the customers' feeling of enjoyment serve as the best predictor of customer loyalty.
- To find out if feelings of happiness serve as the best predictor of relationship quality.

A detailed discussion in chapter five detailing results finding showed that all the set objectives were fulfilled.

## 6.2 Recommendations for Future Research

The current study contributes to a richer and more systematic understanding of the role of emotional satisfaction in service encounters. In particular, this study examined the role of emotional satisfaction and its relationship with service quality, customer loyalty, and relationship quality. The findings demonstrated that different aspects of emotional satisfaction (i.e. frustrating/ enjoyable, unhappy/ happy) are important in enhancing customer loyalty and relationship quality. The results imply the need for a sales and service organization to strategically leverage on key antecedents of customer loyalty and relationship quality in its pursuit of customer retention and long-term profitability.

## 6.3 Specific Recommendations

In the interpreting the results, the limitation of the study has to be considered. First, the use of specific FNB branches is a limitation of this study. Future research should replicate the findings discussed in chapter four by using samples from both width and across various industries, as larger informant samples would provide greater breadth of understanding. Second, the employment of a cross-sectional design poses as another limitation. Future efforts could benefit from testing the proposed research model and hypotheses in a longitudinal design, so that actual behaviours of customers can be taken into account.

In addition, customers' past behaviour data were collected on a self report survey basis. Future research could obtain customer's actual behaviour through real-time electronic data collection in order to minimize the disadvantages associated with self-report data. Also of interest would be further triangulation research, where interpretive and phenomenological approaches could be undertaken to provide additional insight into the various facets of emotional satisfaction.

## 6.4 Conclusion

The study based on the sample size of 1,261 proved that service quality is positively associated with emotional satisfaction, which is positively associated with both customer loyalty and relationship quality. In short, the study showed conclusively that customer's feelings of enjoyment served as the best predictor of customer loyalty, while feelings of happiness serve as the best predictor of relationship quality.

Now taking into account the findings of the empirical study, it can be suggested that there is a clear case for FNB retail banking considering a national roll out of customer experience strategy.

Having mentioned that, there are however certain areas of importance that need review by FNB retail banking management if a successful and holistic strategic solution were to be implemented. In general, FNB retail banking need to consider what to execute and what to exclude in order to fully support customer experience strategy as a way forward. This suggestion is viewed as relevant given the low sales rates (less than 2% of branch visitors purchase network-wide) challenge (Edna Oberholzer, interview conducted by Jabu Furumele on 21 March 2005). Below are examples of some of the issues that may be worth considering by management at FNB.

### 6.4.1 What FNB Retail Banking Needs to Stop Doing

- FNB retail banking needs to stop hard selling to prospective clients. Hard selling usually ignores client needs and interests and usually annoys customers.

- The use of multiple and uncoordinated initiatives targeted at the customer needs to be substituted in favour of an approach where alignment exist between all product houses.

- The customer interface unit needs to be created in order to facilitate easy and convenient communication with the customer. This approach will effectively take FNB from a product approach service encounters with customers to a segment approach which emphasize the value of single view of the customer (entails the anticipation of clients integrated financial needs e.g. transact, borrow, spend and save).

## 6.4.2 What FNB Retail Banking Needs to Start Doing

- FNB retail banking needs to adopt an approach that turns interest into sales. For example, utilization of user-friendly, suitable and enabling technology. And through consistently providing positive customer experience.

- The use of low cost retailing tactics targeted at specific opportunities can help a lot in driving customer experience strategy. This approach helps optimize in-branch sales challenges. This is done through designing an aesthetically pleasing and yet fully functional selling environment.

- Education of both staff and customers can create a window of opportunities for FNB retail banking. For example, FNB can ensure that their members of staff are skilled, helpful and knowledgeable about FNB product and services through optimizing training programmes.

- Fostering of a sense of community will also play a significant role in driving FNB brand affinity and thus drive client retention for example, increased community visibility through improved participation in community sponsorship projects.

## 6.4.3 What FNB Retail Banking Can Do Differently

- FNB retail banking clearly needs change in the way they do business. Now that the study has been able to show what the value of emotional satisfaction is in service encounters, then it can be safely suggested that orchestrating customer

experiences throughout FNB retail banking is a step in the right direction. The "onstage" and" offstage" arena needs to be considered too, meaning FNB retail needs to address the front end processes of the banking hall (onstage) as well as the back office support (offstage) in order to optimize customer experience. For example, acheque account application process happens "onstage" whilst employment verification and vetting of the customer file as per branch banking laid down compliance rules happens "offstage". If turn around time were to be improved both "on stage" and "off stage" it will go a long way towards improving customer expericnce.

- Alignment of all initiatives to ensure a focused approach to marketing cannot be over emphasized if customer experience is to be improved.

Thus, the way forward for FNB regarding the implementation of customer experience strategy can be described in three steps i.e.:

- There can be sufficient value from implementing customer experience strategy as the study has proven (highlighted in the data and analysis chapter) the economics of experience management.

- As a next step FNB can set up a Strategic customer experience unit to develop the overall organizational capability and to train the necessary staff members within FNB retail banking as well as plan and project manage on behalf of FNB retail banking the customer experience strategy.

- The last step would be to set up the budget for the newly created customer experiences strategic team detailed recommendation for, and costing of rollout strategy.

The findings discussed in chapter four clearly show that customer experience strategy has a powerful role to play in opening up the constriction in the flow of value between traffic acquisition and sales. This can be achieved by employing highly focused and targeted customer-experience-enhancing tactics (focused on optimizing customer's emotional satisfaction) cutting across all bank interfaces with client.

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**APPENDICES**

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## 1.1 Table 1 Item Measurement Properties

| Item/ Construct | Standardized loading | t-value | Composite reliability |
|---|---|---|---|
| Overall service quality | | | 0.96 |
| In terms of service delivery, Florida branch | | | |
| Has an excellent overall service | 0.95 | 45.10 | |
| Has a service of high quality | 0.96 | 46.47 | |
| Provides a high standard of service | 0.95 | 45.52 | |
| Delivers superior service in every way | 0.90 | 41.38 | |
| | | | |
| Emotional satisfaction | | | 0.86 |
| Please indicate your feelings with respect to transacting at West gate branch | | | |
| Pleased/Displeased* | 0.77 | 31.68 | |
| Unhappy/Happy | 0.89 | 39.56 | |
| Disgusted/Contented | 0.86 | 37.24 | |
| Enjoyable/Frustrating* | 0.73 | 29.43 | |
| | | | |
| Customer loyalty | | | 0.92 |
| In terms of my loyalty to branch X | | | |
| I say positive things about branch X to other people | 0.85 | 36.97 | |
| I recommend FNB branch X to someone who seek my advice | 0.92 | 42.57 | |
| I encourage friends and relatives to transact at branch X | 0.95 | 45.09 | |

| | | | |
|---|---|---|---|
| I consider branch X my first choice in the next few years | 0.83 | 35.97 | |
| Relationship quality | | | 0.90 |
| What is your overall assessment of the quality your relationships with the employees at branch X? | 0.85 | 35.23 | |
| What is your overall assessment of the quality of your relationship with branch X? | 0.89 | 37.51 | |

**Table 1 Item Measurement Properties**

## 1.2 Questionnaire Copy

## Section 1

This section is concerned with the overall service quality delivered by branch X. Please circle one number from 1 (strongly disagree) to 7 (strongly agree) for each of the following statements

| | |
|---|---|
| Overall service quality | |
| In terms of service delivery, branch X | |
| Has an excellent overall service. | 1   2 3 4 5 6 7 |
| Has a service of very high quality | 1   2 3 4 5 6 7 |
| Provides a high standard of service | 1   2 3 4 5 6 7 |
| Delivers superior service in every way | 1   2 3 4 5 6 7 |

**Figure 1 Copy of the questionnaire**

## Section 2

Figure 2 is concerned with your <u>satisfaction with</u> transacting with FNB branch X. Please circle one number from 1 to 7 for each of the following statements.

| Emotional Satisfaction | |
| --- | --- |
| Pleased | 1 2 3 4 5 6 7 Displeased* |
| Unhappy | 1 2 3 4 5 6 7 Happy |
| Disgusted | 1 2 3 4 5 6 7 Contented |
| Enjoyable | 1 2 3 4 5 6 7 frustrating* |

Note:* denoted reverse-scored items

**Figure 2 Branch Transaction Satisfaction Rating**

## Sections 3

This section is concerned with your loyalty towards FNB X. Please circle one number from 1 (strongly disagree) to 7 (strongly agree) for each of the following statements.

| Customer Loyalty | |
| --- | --- |
| In terms of my loyalty to FNB branch X: | 1 2 3 4 5 6 7 |
| I say positive things about retail store XYZ to other people | 1 2 3 4 5 6 7 |
| I recommend FNB branch X to someone who seeks my advice | 1 2 3 4 5 6 7 |
| I encourage friends and relatives to transact at branch X | 1 2 3 4 5 6 7 |
| I consider branch X my first choice in the next few years | 1 2 3 4 5 6 7 |

**Figure 3 Customer Loyalty Rating**

## Section 4

Figure 5 is concerned with your <u>relationship</u> with FNB branch X. Please circle one number from 1 (very weak) to 7 (very strong) for each of the following statements.

| |
|---|
| Relationship quality |
| What is your overall assessment of the quality of your relationship with the employees at FNB branch X?                     1 2 3 4 5 6 7 |
| What is your overall assessment of the quality of your relationship with FNB branch X?                     1 2 3 4 5 6 7 |

**Figure 4 Relationship Quality Rating**.