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**GAINING COMPETITIVE ADVANTAGE THROUGH QUALITY OF  
SERVICES IN FINANCIAL INDUSTRY**

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<p>Abstract</p> <p>This study views broadly the concept of competitive advantage by exploring it from different angles. Approaches on competitive advantage are made from management, marketing and service quality literature. By exploring the subject widely, this study adds insight to competitive advantage literature and shows the competitive area among financial institutions, including banks and insurance companies. Thus, the purpose of this study is to discover the factors in finance organizations' services, which affects positively on customers by creating customer loyalty.</p> <p>The study is implemented as a qualitative multi-case study so empirical material is gathered and analyzed for this purpose. The empirical material consists from fifty semi-structured interviews, where the interviewees have been selected to meet the criteria of this study. The empirical research was constructed to explore three aspects, firstly to solve the key factors that effect on customers' satisfaction and loyalty within financial industry. Secondly, to achieve information of behavior elements with their vendors, and thirdly, to determine the factors, which are linked to customer defection. All these aspects were analyzed as the model for competitive advantage was created.</p> <p>Positive perceived quality on core services, such as price, billing, and Internet bank account are the foundation of the relationship between a customer and a bank or insurance company. Still, customer loyalty cannot be built around core services because they only produce averagely satisfied customers. The key factors that create competitive advantage through customer's loyalty are personalization, communication, experience, company's reputation and positive experiences from service employees. All these factors were linked to trust, which played a central role with loyalty.</p> <p>Conclusions indicate that the positive factors for customer loyalty are strongly related with the positive experiences that the customers had with companies' employees, since majority of the cases were linked to experiences from employees, thus the loyalty was depended on employees, not core services. The competitive benefit of customer loyalty came through in four areas: in positive word-of-mouth, in choosing behavior, in duration of relationships and in centralizing behavior.</p> <p>The new findings suggest that personalization of bank and insurance services is the top factor for loyalty and that they should actively reach out to their customers. As for insurance companies, insurance policy claims appear to act like a complaint management experience, and a competitive strategy can be built around health insurances. The results also point out that customer become more price-sensitive as their service costs go up, thus customers with low costs are more loyal than customers with high costs.</p> <p>Based on the findings of this study it can be said that managers are misguided when trying to enhance competitive advantage by concentrating on IT-solutions. The study shows that business in finance sector is very people-centric, where the relationships are formed between persons. Companies should discover new ways to please and impact their customers' emotions because that is the area, which gives back the lost bargaining power by raising their switching costs. There is also no room for service errors for it is the main reason why companies are losing customers, followed by core product failure and loss of trust.</p>			
Keywords Customer loyalty, service quality, human resources, customer value			
Additional information			

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## 1 INTRODUCTION

Competition in the business world, as we know it today, is dynamic and challenging. Customers have become more aware of the competition that is taking place around them. The rise of the information age has educated individuals to search information from products and services, which has changed the market forces in many industries. The relationship between customers and companies has strongly developed to a direction where the customers have a dominating position in a sense of bargaining power (Peppard 2000; Porter 2008). With this power, customers have become more demanding towards service providers (Porter 2008; Peppard 2000). One could state that many industries, including service industry, are under the mercy of their customers. Gaining *competitive advantage* in today's business service organizations is a very serious task for managers, because they need to find a way to deliver superior value to their customers (Yep et al. 2012; Yu & Dean 2001; Oliver 1997). The big question is that, where should financial industry companies create their competitive advantage and what approach should be used to seek it?

Various researchers, such as Kish (2000) and Reichheld (2003) don't find this situation insuperable, by focusing the solution on the organizations' lifeline of survival, the revenue, which is gained from loyal customers. Organizations can't stay in the game without creating economic value, in other words they need to earn more revenues than what they spend on operations and the source of majority of the revenue is customers. The importance of customer relationship has got lots of attention during the last decades and different marketing studies highlights the role of customer satisfaction and the positive effect of their loyalty in service organizations (Yu & Dean 2001), such as banks and insurance firms (Peppard 2000). The basic idea for long-term competitiveness is to manage the customer in a level that is superior, compared to the competition and with that, gain the customer's loyalty (Wirtz et al. 2008). How significant issue the customer's loyalty really is and how does it effect on financial performance? How satisfied the customer really needs to be for a company to gain competitive advantage?

The focus in many management theories has been to create a unique value and competitive position for organizations (Porter 2008; Barney 1991; Eisenhardt & Martin 2000). Different approaches have surfaced in management literature to provide this competitive edge for organizations, such as dynamic approach, resource-based approach, customer relationship management, total quality service and experience based theories. All these theories have shown to improve the various aspects of organizations' qualities in a way of effectiveness and efficiency. Approaches by marketing researchers (Zeithaml, Berry and Parasuraman 1996; Caruana 2002), have pointed out the impact of service quality on customer satisfaction levels and its linear effect on organizations financial performance, but still numerous of service organization managers seem to fail in acknowledging this competitive source of customer loyalty.

### **1.1 Research questions and the objectives of the study**

This research is based on competitive advantage and defining it around the financial service industry. This study will exploit theories of management and reflect them on different marketing theories. Various studies from both areas will discuss about the critical factors concerning an organization's capability of succeeding in nowadays-competitive environment. The study will argue that management theories should concentrate more on issues that are normally classified in the area of marketing, such as service quality, customer satisfaction and customer loyalty. This study will exploit the area of competitive advantage more widely, including marketing and service literature, to create a more insightful understanding in which banks and insurance companies should focus on.

The cornerstone of this study is to provide a new framework for finance organizations, which will demonstrate the competitive field. The framework will suggest a new perspective for service organizations to focus on for gaining better financial performance and long-term growth. The model derived from the framework will fill the gap between the theories from management and marketing, connecting the environment of many marketing studies (Reichheld 2003; Yap et al. 2013) to the literature of management (Porter 2008; Eisenhardt & Martin 2000). It will highlight and give value for customer's loyalty in a case of quality service (Wirtz et al. 2008).

Lots of marketing studies have been done of this subject, but it has had relatively little attention on the management side.

This study will clarify for managers the essence of customer's loyalty for organizations financial performance. The suggested model from the framework will start by examining the consequences of service quality on customer loyalty. In here, customer service and employees will get extra attention because of its major role in service organizations. From this starting point, the model will go through, how the quality of service, plays a critical part in shaping customers experiences and how the experiences effect on overall organizations competitive edge. The study will also examine, how employees' job satisfaction and empowerment issues are linked to their capability to be successful in their service work environment and how important role does human resource management have in it.

The study's focus is on financial services and the framework is built around it. Lots of secondary source is based on articles from the world of banking. This is because the empirical part of this study is carried out on a finance service organization. Despite of this, the model can still be used more widely in other service organizations, by bringing out customer focused strategic perspective, and it is not limited only to one specific sector.

The main research question of the study is:

- *Where does finance service organization derive its competitive advantage?*

The main research question will be answered and approached by resolving the more specific sub-questions:

- *What are the most important factors that create customer satisfaction and loyalty in finance service organizations?*
- *How important is customer loyalty to organization's financial performance?*



The research question will be finally answered by creating a theoretical framework through viewing literary on this subject and then reflecting the empirical findings against the existing theories. The contribution from this research is the outcome of the analysis, where a framework is built based on previous studies and this study. The empirical part's objective is to solve what kind of service quality enhances customer's loyalty towards their finance organization (banks and insurance companies) among young adults. Thus, the empirical results will highlight some existing theories and also present new elements, which are the real contribution of this study.

Which companies (banks and insurance companies) the selected population is using doesn't matter in this research, since the idea is to underline the different factors that they are satisfied with, in their history of association with their companies. So it brings no added value for this study to recognize whether they are customers in Lähi-Tapiola bank and insurance company or in Pohjola / Osuuspankki etc. By empirically resolving this, the research will attempt to highlight and back up the recent discussions, concerning the important factors in organization's services from customers' perspective and not managers, as this study is customer-centric.

## **1.2 The significance and scope of the study**

This study is positioned strongly within the area of competitive advantage (Porter 2008; Eisenhardt & Martin 2008) by approaching from the direction of service quality (Yap et al. 2012) and customer loyalty (Bowen & Chen 2001). The main point of this research is to simplify the different existing framework for achieving competitive edge. Further, the study will clarify the strategic decision, which managers must make to improve their market position. The study will also point out the importance of customer-oriented strategic planning, which can be used as a dynamic capability to gain competitive advantage (Eisenhardt & Martin 2000).

The impact of delivering customer value in a superior way has got attention among literature, but not enough among management literature. The literature review will show that service organizations should concentrate more on creating different ways of providing customer value. It will clarify and simplify the source for organizations'

successful performance by focusing on customers. The review will go through different management theories for competitive advantage and create a new model for service organizations competitive advantage by fusing marketing studies into the existing theories. In the heart of the model will be intangible assets, which will be proved to have a significant role in creating competitive edge.

The empirical section of the study will find various factors, which leads to the target populations satisfactory, thus loyalty, towards their individual finance service organization. In other words, the key factors for service quality will arise, why customers have gained confidence and trust towards their organizations. The field study will also reveal the triggers, which have led to negative impressions and defection. Whether the individual has a positive or a negative satisfaction level towards the company, it will still bring value for this study. Also it will bring value for managers in service organizations.

Further, this research will contribute new insight to the previous academic discussion about creating competitive advantage. By enriching the discussion with marketing, service quality and HRM studies, it will further suggest a three-staged model for creating competitive advantage. Then this model will be clarified and defined with the empirical study. The three features of the model are; *service excellence, customer loyalty and competitive advantage*.

### **1.3 Research methodology and data**

This study starts with a literary review. Its main objective is to provide an answer to the research question on a theoretical level. This will be achieved, by first, creating a general view of competitive advantage and its origins, and then, reflecting it to the management and marketing literature. The literary review is followed by an empirical research and analyses of the specific interviews, which has been conducted on the selected study objects. The empirical part of the research attempts to find verification for the model that has been established in the theory section. It will also try to discover the major reasons for the outcomes. Thus, the main objective is to find out, what kind service qualities form their bank/insurance company, has impacted

and influenced them to be loyal or disloyal towards the companies, and how does it appear in customers' behavior.

The first part of this study gives answers to the research questions based on existing academic researches papers and studies. A new simplified model will be created, which points out the origins of competitive advantage in service organization that operates in the area of finance. Most of the research material is gathered from scholarly databases, such as Emerald Journals, ABI/Inform (ProQuest), Business Source Complete (EBSCO) and also other Internet databases. Significant key words that were used to search to journals were: competitive advantage, service quality, customer satisfaction, customer loyalty and finance services.

The researcher has a 5-year experience in working in the finance service industry and this might have an impact on the theoretical review. This empirical experience might give weight on issues in which the researcher has own empirical experience. Still the study will be performed as neutrally as possible and the experience should not effect on the process of the empirical part and its results.

After creating a theoretical framework based on the literary review, the paper will go through in detail the empirical research that was conducted in autumn of 2012 in Oulu, Finland. The empirical research was conducted as a qualitative research by interviewing the study subjects. Interpretive approach is followed in this study, which attempts to enhance the understanding of the customer's perceived value and its linear influence on organizations financial performance. The approach is theoretical and it is founded on interpretations of the gathered data.

The interviewing approach was chosen due to the fact that it is good for studying hidden meanings and experiences and often it offer more descriptive data than other research methods (Myers 2009: 121). The emotions of the interviewees have also a great meaning concerning this study so this method was optimal for adding richness to the analyzing. In total, the empirical data consists from fifty interviews with the target group. The nature of the interview is semi-structured. The aim of the empirical study is to clarify to different attributes that have a great positive or negative impact on the target group's loyalty towards their bank and insurance companies.

This study is founded on inductive logic. The focus will be on the answers from the interviewees. The inductive logic will be applied on the quantities of similar answers, in other words, the issues that arise the most times, will be argued as the strongest indicators for that specific phenomenon.

#### **1.4 Definition of main concepts**

In order to begin the discussion about the phenomenon of competitive advantage and its sources, it is necessary that the main concepts are shortly explained and defined. These key concepts are discussed thoroughly in the later chapters and they play a major role in the framework.

*Competitive advantage.* Company can only gain competitive advantage over its rivals by either performing at a lower costs or performing in a way, that leads to differentiation (Porter & Millar 1985), which creates superior customer value (Huber, Herrmann and Morgan 2001). Reichheld, Markey and Hopton (2000) defines that a company's competitive advantage is explained by having relatively lower retention rate than its competitors.

*Sustainable competitive advantage* comes from operational effectiveness or strategic positioning. Thus, a company must do what the other companies are doing but better, in a sense of cost structure, or the company must deliver unique value by doing things differently than its competitors. It allows a company to outperform the average competitor (Porter 2001). Barney (1991) argues that organization has it, when it is implementing a value creating strategy that is not simultaneously being implemented by any other organization.

*Service quality*, the outcome from the comparison that a customer makes between his expectations about a service and his observation of the way the service was delivered (Grönroos 1984; Caruana 2002). Service quality can lead to higher switching costs, in other words, the customer's bargaining power is weakened (Porter 2001).

*Customer value* can be described by the value, which the customer perceives from a service. It is the level of return in the service or product benefits for a customer's

payment in a purchase exchange (Huber et al. 2001). The highest retention rates are evidence of superior customer value (Reichheld et al. 2000). It is closely related with customer's satisfaction and loyalty (Ball et al. 2006).

*Switching cost* is the negative cost or experience for a customer, which incurs as a result of changing service provider or product. By switching to a competitor, the customer would lose benefits that are not available the competitor (Bendapudi & Berry 1997). In the context of financial-planning service, switching costs moderate positively the effect of trust and satisfaction on relationship commitment (Sharma & Patterson 2000). Thus the nature of the costs can be either monetary and psychology.

*Customer defection* is equivalent to losing customer to a competitor. If a company can provide customer satisfaction, it can raise the switching costs, thus prevent its customers from defecting (Jones & Sasser 1995).

As previously stated, this study approaches the creation of competitive advantage from a viewpoint of a company's financial performance. From this viewpoint, it is crucial to understand how all the defined elements listed above come together and how they all impact on each other.

## **1.5 Structure of the research paper**

Eight chapters will be covered in this study, which are: *The theoretical background of competitive advantage and customer loyalty and service excellence* in chapters two, three and four. *The description of the research data and methods* will be covered in chapter five. *The analysis and discussion* in chapters 6 and 7 and finally, *the conclusions and implications* based on this study will be shown in chapter 8.

The research will begin by going through the different approaches of the origins of competitive advantage. The paper will describe the different viewpoints for it and it will highlight the critical parts. Based on the different approaches, this research will narrow down many factors from the various theories and concentrate on one of the factors, which are related to this study area.

The next chapter, chapter three, will go through the literature about customer loyalty and the impact and magnitude of customers' satisfaction. Key areas in here will be not only the loyalty, but also subjects that are very closely linked in, such as customer satisfaction, trust, defection and retention. The chapter will indicate that organizations should not aim for averagely satisfied customers for that they are not the source of sustainable growth in revenues and profitability.

Further, chapter four will be primarily focusing on the service quality. This is the key area for creating competitive advantage and the framework of the study is built on it. The research will show, why this is the case and how different factors effect on the quality. Lots of attention will be given to customer's emotions and human resource management (HRM) as the source of employees' job satisfaction and the correlation between employees' satisfaction and customers' satisfaction will be pursued.

The methodology, data and also the methods, which will be used to analyze the recovered data, will be described in chapter five. Also issues, such as validity and reliability, are thought through.

In the next chapter, the primary focus will be in analyzing, how the empirical results support and reinforce the previous chapter's framework. The outcome from the analysis will show us, which service qualities have had a positive or negative influence on customers' perceived value. In other words, the results are going to underline various parts of organizations' services that lead to competitive advantage by creating customer loyalty.

Chapter seven will present issues concerning customer's behavior. The main focus is to present how the customer's loyalty effects on his behavior in matters, such as *duration*, *centralizing* and *positive/negative word of mouth*. Also the main reasons for *company choosing* will be covered.

The final part of this paper includes the summary and conclusions from the entire research. This part will also suggest managerial as well as theoretical implications. Suggestions for research gaps and future researches are also proposed here. Finally, the limitations of this research will be evaluated.

<p><b>Chapter 1</b> Introduction</p>	<p>This chapter goes through the research area. The research questions are presented here as well as the frames for the study.</p>
<p><b>Chapter 2</b> Going for Competitive Advantage</p>	<p>Different approaches to competitive advantage are covered. The importance of service quality is explored and highlighted.</p>
<p><b>Chapter 3</b> Loyalty Effect</p>	<p>The importance of customer loyalty is pointed out. This chapter will also present different factors that have an effect on loyalty, such as satisfaction and trust.</p>
<p><b>Chapter 4</b> Superior Service</p>	<p>This chapter studies the key factors for excellent quality of service. Element such as human resources and customer emotions are being examined.</p>
<p><b>Chapter 5</b> Research data and Methods</p>	<p>The methods and the qualitative approach for this study will be presented as well as the process of obtaining the empirical data.</p>
<p><b>Chapter 6</b> Factors Towards Customer Loyalty</p>	<p>Analysis from the empirical data is performed. The key service factors for customer loyalty will be presented.</p>
<p><b>Chapter 7</b> Customer Loyalty and Behavior</p>	<p>This chapter will study the linkage between customer's loyalty and behavioral issues.</p>
<p><b>Chapter 8</b> Conclusions</p>	<p>This final chapter concludes the study and will present further research suggestions.</p>

**TABLE 1: The structure of the research paper**

## 2 DIFFERENT APPROACHES TO COMPETITIVE ADVANTAGE

One of the most important roles for strategic management is to come up a way, how to create competitive advantage inside its competitive environment (Eisenhardt & Martin 2000). This subject is very important to comprehend, because it is the issue that fundamentally gives growth to organizations value, but still it is not quite well understood among managers. When different firms are being analyzed, it is always clear that this is the element, which has made other companies to succeed and rise from the average. The only way to rise is to deliver greater value then competitors (Porter 1996). The question remains: how to interpret competitive advantage?

How to create it, in other words, how to surpass the competition, differs on the industry and the nature of the competition (Eisenhardt & Martin 2000). General opinion is that it can be built on organizations resources, these been called as resource-based views (Potter, 1998; Barney, 1991; Peteraf, 1993), and others give more value for organization's culture and human capital (Lismen, Shaffer and Snape). RBV models have been criticized for being not dynamic enough (Eisenhardt & Martin 2000), and they don't give enough credit to managers because they favor companies with dominating resources. Competitive edge can also be studied from the perspective of *customer relationship management* and *customer value*, which often are closely related to service quality.

This chapter will go through the various theories of competitive advantage. Different approaches by many scholars and their academic frameworks will be covered that are connected to service quality and service excellence in service industry. The goal of this chapter is to point out the similarities of the theories, create understanding and common ground for the rest of the study. This chapter will also rationalize, why a specific approach was chosen to study the subject of competitive advantage within finance service organizations.

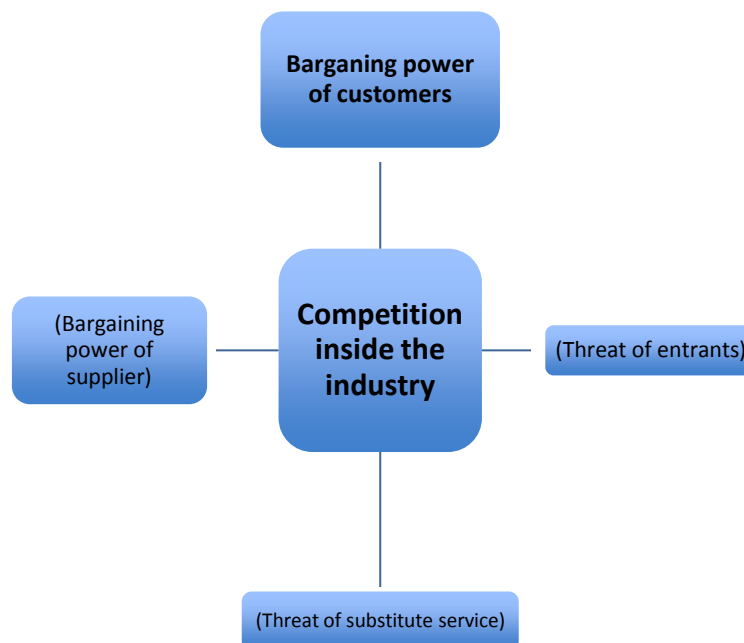
### 2.1 The competitive approach

Generic competitive strategies (Porter 1998: 11) have been widely accepted as the source of competitive advantage since 1985, when Porter first created the framework.



In this model, he argued that there could only be two different ways for a firm to create competitive advantage: cost advantage or differentiation. Within these two, the organization can use focus strategy. In overall there are four different ways to achieve above average performance. Which strategy an organization should use, depends also on the industry it is competing in (Eisenhardt & Martin 2000). By customizing one of these strategies, an organization can cope better with the five forces than its rivals (Porter 1998: 11). By implementing a generic view, a company can establish operational effectiveness over its rivals and establish a difference that it can preserve, and this is the heart of competitive strategy. This differentiation approach is used in this study, as it is confirmed as a valid source of competitive advantage in more recent studied too, which are more concerned on the field of service quality (Wirtz, Heracleous and Pangarkar 2008; Reichheld 2003; Yap et al. 2012; Peppard 2000).

When we adapt the five forces model to financial service organizations in Finland, where the markets are dominated by few bigger companies, where the barrier of entry is high, bargaining power of suppliers doesn't really exist and neither does the threat of substitute products or entrants; the model will focus on the bargaining power of customers and rivalry inside the industry (Peppard 2000). In other words, the competitive field in this study is relatively stable, as the boundaries and players are usually well informed, unlike high-velocity markets, where the industry structure is rapidly changing all the time (Eisenhardt & Skull 2001). This means that these two forces is the playground, where a company must perform better than its competitors for gaining competitive advantage. This is the field in which the competitive strategy must be built on.



**FIGURE 1: The five forces (Porter 1979)**

Understanding the competitive forces and their underlying causes reveals the roots of an industry's current profitability while providing a framework for anticipating and influencing competition and profitability over time (Porter 2008). A company can also potentially influence on all its competitive forces and so the strategist's goal is to impact on those forces in a way that provides to the company. For example, to counter customer's power (bargaining power), the company needs to improve its services, which will raise buyers switching costs (Porter 2008; Peppard 2000).

Thus, delivering services with superior quality will make it harder for the customers' to leave for service for a rival, in other words, it will weaken their bargaining power (Peppard 2000). From a service organization's perspective, the service level and how the organizations employees deliver the service can be a solid source of differentiation and competitive advantage (Wirtz et al. 2008).

Competitive literature is wide and widely studied. The five forces model gives a decent understanding about the business forces and it helps to single out the studied environment, which in this study is the relationship between a company and a customer, as it is the competitive field in banking and insurance field (Peppard

2000). As for the approach of competitive advantage, in other words, what is the fundamental idea behind it and how it can be sought out, there are many options. The main question in this is the approach used. A resource-based view (RBV) of a competitive advantage is purely a consequence of dominating resources, which point out that companies that possess resources that are valuable, rare, imperfectly imitable and non-substitutable (VRIN attributes) (Barney 1991; Peteraf 1993).

Other, more dynamic view is an approach, where a competitive edge is gained from dynamic capabilities, such as “best practices” or “routines”, which can be acquired by studying a field and improving processes with the new understanding (Eisenhardt & Martin 2000). Dynamic capabilities can be factors such as product development, strategic decision making, and alliance and they are neither vague nor tautological (Eisenhardt & Martin 2000).

The old, RBV that relies on superior resources can't explain the events happening in today's dynamic business world, where success stories have formed from the starting point of minimal resources (Apple, Yahoo), thus RBV is too vague on explaining the logic behind success (Eisenhardt & Martin 2000). As this study tries to discover and re-assure the key factors for service quality in among finance companies, such as banks and insurance companies, in Finland, the chosen approach towards competitive advantage is the dynamic one, which gives more room for strategy and less room for superior economics. In other words, dynamic approach gives more room for knowledge, which can be used to implement value-creating strategies.

The approach to competitive advantage effects on its nature, as RBV claims that sustainable competitive advantage can be gained from VRIN-attributes (Barney 1991, Peteraf 1993) The again, the dynamic approach supports the idea that the advantage that can be derived from modern dynamic attributes, such as strategic planning, is not sustainable, because it can be taken to other firms as well, so the nature of the advantage is not sustained (Eisenhardt & Martin 2000). This view supports the idea behind the competitive advantage in generic strategy framework (Porter 1998: 11) but the difference in these approaches is the length of competitive advantage, as generic view claims that the advantage can be sustainable but dynamic approach argues that it is an advantage with short term.

As the business world has changed in the last decades into a more dynamic and unpredictable direction. Many cases have shown that empires with superior attributes have gone down and various companies have succeeded in competing with scarce resources (Apple, Yahoo). Because of the unpredictability of today's business world, this study will take the dynamic approach that the competitive advantage, which might be gained from the results of this study. Thus the approach to competitive advantage in this study is that a long-term competitive advantage can be found from the resource configuration that managers build using dynamic capabilities and not from the capabilities themselves (Eisenhardt & Martin 2000).

## **2.2 Human resources**

Human resources become very important, when the origin of competitive advantage is related to services, as service employees are the ones who deliver it (Reichheld 2003; Wirtz et al. 2008). Service employees are the image and face of an organization (Reichheld 2003) and usually these employees are faced with the most demanding jobs in service organizations, as they are expected to be fast and efficient at performing operational tasks, as well as friendly and helpful in nature (Wirtz et al. 2008).

Older theories that explain the efficiency of human resources are explained with a resource-based view, which gives us a good understanding of the origins of competitiveness (Barney 1991; Peteraf 1993), but it lack the perspective of dynamic environment (Eisenhardt & Martin 2000). Chan, Shaffer and Snape (2004) as well as Eisenhardt and Martin (2000) have criticized that RBV theorists argue that competing firms can enjoy sustained advantage due to resource heterogeneity and the imperfect mobility of such resources (Barney 1991, Peteraf 1993). They researchers also said that RBV theorists have implicitly assumed static equilibrium (Chan et al. 2004) and that the theories have too much concentration on the difficulty of imitating competing firms rather than co-specialization and complementarities of resources (Powell 1995).

According to human resource management studies, numerous researchers have stated that people might be the ultimate source of sustained advantage (Bartlett & Ghoshal

2002), since traditional resources like financial capital and scale of economics have been weakened by globalization and other economic changes (Youndt et al. 1996). As for service industry, it is said that service employees are a key input for delivering service excellence and productivity and these both are a important sources of competitive advantage (Wirtz et al. 2008). This HR approach is also been confirmed in studies under total quality management, where the results supported heavily in employee management as the origin of companies quality (Powel 1995).

The arrow towards intangible assets is pointed out again by highlighting people as a capital. Also Pringle and Kroll (1997) claimed that intangible knowledge-based resources are more likely to provide sustainable competitive advantage when the environment is changing rapidly. More precisely, the advantage is gained by managing the human resources effectively and successfully under volatile environment circumstances (Pringle & Kroll 1997, Youndt et al. 1996). Other resources for surpassing the competition are organization's culture and strategy, which are both considered as organizational capital (Barney 1991).

Based on the previous assumption, Chan et al. (2004) studied the link between a firm's financial performance and human resources/culture. Their empirical findings suggested that organizational culture can be a valuable resource as it has a major effect on a firm's ability to carry out plans and strategies. Culture is also extremely difficult, impossible, to duplicate (Barney 1991, Chan et al. 2004). Then again, organization's leaders are partly responsible in creating culture, which points back to human capital (Porter 1996). High-performance human assets might be the hardest for competitors to copy, than any other corporate resource (Wirtz et al. 2008).

Researches towards human capital, as being the resource for competitive advantage, have been divided in two primary streams. Some researchers have proposed that human capital itself is a source for sustained competitive advantage by setting it against RBV criteria. They appeal that that employees at all levels form the resource pool for a company's competitive advantage (Wright, McMahan and McWilliams 1994). Other approach to the subject is that the source of sustained competitive advantage is the capacity and talent to manage human capital (Writz et al. 2008).

According to the latter, it is the path-dependent, socially complex and causally ambiguous properties of knowledge and the dynamics of relationships embedded in the human capital, rather than the capital itself (Chan et al. 2004, Coff 1997). Also the more dynamic approaches also support that fact that competitive advantage cannot be built around RBV approach of human capital (Barney 1991; Peteraf 1993) because it is the way it is used. The environment must be explored, and the strategy and best practices must be built around in each situation, and the competitive edge can be found from those “best practices” and correct dynamic responses to changing environment (Eisenhardt & Martin 2000).

This study also adapts the dynamic approach for competitive edge as this study tried to discover the key service elements for service excellence in finance industry, from the approach of a customer. As these are discovered and a deeper understanding is gained, a framework for dynamic approach of competitive edge can be created. Thus, dynamic approach for human capital is taken, because it gives more glory to management and it is more accurate of explaining the market behavior in slow and rapid business environment (Eisenhardt & Martin 2000).

### **2.3 Customer relationship management and customer value**

The literature of marketing management offers a similar approach than TQM. The idea behind customer relationship management is very similar because in the same way, it relies on organizational processes, but only those that are centered towards customers. CRM is defined by many different ways but usually the focus is on customer relationships (Nguyen & Mutum 2012) and IT-solutions for enhancing them (Payne & Frow 2005). This study is more interested on the holistic view of CRM, in other words, the customer focused approach. IT-solutions are easier to copy by the competitors, thus sustainable competitive advantage can't be built on those (Grönroos 1996; Powell 1995; Porter 1996).

The competitive advantage is gained by creating a relationship with customers, built on quality, innovation, dialogue and learning (Nguyen & Mutum 2012; Grönroos 1996). This is considered more sustainable strategy and it's mostly inimitable by

competitors. In essence, a strategy, that can create a long-term competitive advantage (Grönroos 1996).

Payne and Frow (2005) stated that organization should determine, whether its value proposition is likely to result a superior customer experience. Their comprehensive understanding was that customer evaluates various attributes of product or service and these attributes should have a positive effect on the customer. For doing this, an organization must get knowledge from its customers by continuously updating knowledge of their needs, motivations and behavior (Gebert, Geib, Kolbe and Brenner 2003). Gebert et al. (2003) also underline the importance of customer experience in their knowledge management model. They add that knowledge from customers is based on the fact that customers gain their own expertise while using service, thus they should be regarded as equal partners when improvements are discussed.

Richard and Jones (2008) are discussing from the same issue in their article, where they try to find the value drivers for CRM. They sum up that one of the core benefits of managing customer relations is that it improves the efficiency and effectiveness of customer service. The researchers say that customer service is a crucially important function, because it operates in the frontline of an organization and customer service is responsible of service recover efforts, which have a great impact on customers' satisfaction and retention rates. Pursuing long-term relationships with customers is more profitable for a company (Nguyen&Mutum, 2012). Other marketing management researchers also agreed with this fact (Grönroos 1996; Hendricks & Singhal 2001; Payne&Frow 2005) by stating that organization's long term success is contingent upon customer retention over customer acquisition, since it is more profitable to build long-lasting relationship with existing customers than continually recruit new customers.

According to the 2008 Executive Survey by Gartner and Forbes.com, retaining and enhancing current customer relationship is the number one business issue, follow by attracting new customers. There is an increased need to continuously re-engine business strategies to improve customers experience and increase profitability (Toor 2009). The researcher says that organizations are increasingly depended on accurate

feedback in all its areas. He suggests that firms should make efforts for gaining customer knowledge, for it has become a vital part of every company's efforts to increase efficiency, achieving continual improvement and ensure that customers are satisfied, ultimately leading to successful business. Toor (2009) also denies that all of an organization's customers are necessary and managers should ask themselves that does the revenue from existing customer falls short compared to the investment needed to provide continuum.

Customer relationship management is mostly about improving the IT-implementation so that organizations can handle their customers more effectively and segment them more efficiently and gain competitive advantage through more efficient organization. Still CRM points out the obvious issue, which is the importance of satisfied customers and their loyalty towards their companies. The next chapter will focus on managerial theories, which source of competitiveness is purely on customer value.

The fundamental idea in *customer value* approach is very similar to CRM. The difference between these two is the fact, that customer value approaches are much more simplistic and less detailed. The focus is purely in adding customer's value towards a company, in other words, increasing a customer's perceived value. Perceived value is thought to be the difference between customer's perceived benefits and customer's perceived costs (Huber, Hermann and Morgan 2001). Another definition for customer value is that it is the emotional bond established between a customer and a vendor after the customer has used a service provided by the vendor and found the service to provide an added value (Woodruff 1997).

Another way to subscribe perceived customer value is cost-benefits method. Thus, the relevant costs include things like: monetary-costs, time costs, search costs, learning costs, emotional costs and also cognitive and physical effort together with financial, social and psychological risks (Huber et al. 2001). This approach supports the switching costs theory (Porter 2008). Woodruff (1997) also suggest that customer value has a strong relationship with customer satisfaction, so managers should get to know their customers by informal and formal methods, such as feedback, experiment



surveys and qualitative research. An improvement in customer satisfaction is an improvement in customer value.

The approach of customer value affects the whole organizational culture. Organizations should shift more resources on retaining customers from acquiring customers. They should concentrate on a customer's value dimensions that improve the buyer's commitment to a seller (Woodruff 1997). For service organizations, this means that organizations should use informal and formal methods for gaining more understanding, which of its service processes deliver or reduce customer value.

Many industrial-organization economists and marketing strategists emphasize that creation of superior "customer value" is a key element for business organizations' success (Huber et al. 2001; Porter 1996; Parasuraman 1997), so it is a source for competitive advantage. Also the literature of competitive strategy argues that by delivering more customer value, more customers are gained (Porter 1985). The marketing literature argues that a major source of competitive advantage is outward orientation towards customers. This calls for firms to compete on superior customer value delivery.

Altogether we can interpret that by adding customers' value, customers' switching costs are raised. By reflecting this into the five forces (FIGURE 2) model, it means that customer value is linked to bargaining power. The more value a company can create to its customers', the more the bargaining power of the customers' is reduced. Same statement in other words: The more satisfied customers are, the less they have bargaining power.

#### **2.4 Study area of competitive advantage in finance industry**

As this chapter has explored the different ways of enhancing competitive advantage, it becomes clear that in finance industry, the main focus should be in the customers. Thus companies should try to impact on customer bargaining power by making them satisfied and loyal. Customer satisfaction is eventually the element that effects positively on a company's financial performance (Reichheld 2003; Tena, Llusar and Puig 2001).

Finance companies are competing in service industry, which automatically points out that companies should improve the quality of their services to effect on customers' satisfaction and loyalty (Peppard 2000). In other words, the organizational activity, the field of service quality is the area, where the competitive edge can be gained (Porter & Millar 1985; Porter 1996). By differentiating services to meet the customers' needs, is a way to gain competitive advantage (Wirtz et al. 2008). It comes down to the fact that finance service organization has to deliver service excellence over its rivals (Peppard 2000).

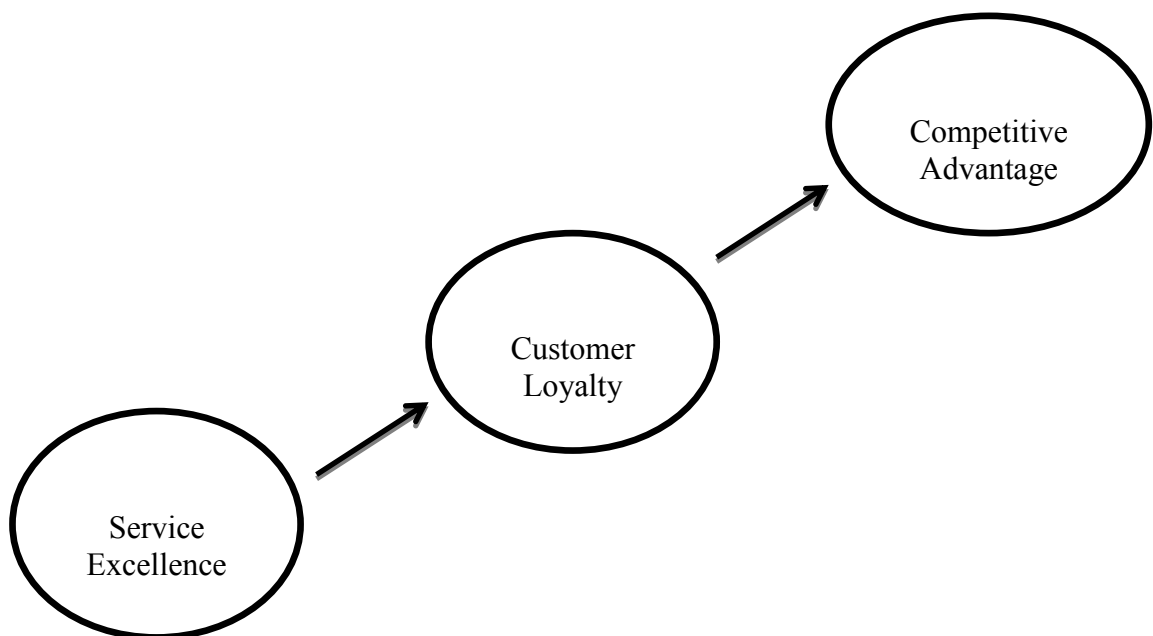
Despite the differences in various theories during this chapter, similarities can be highlighted. Firstly, the importance of services, which is one of every organizations main activity and the theories argue that it is crucially essential sector for gaining competitive advantage (Mascarenhas, Kesavan and Bernacchi 2006). As for finance sector firms, services become even more central, because the finance service industry is dominated by customers' buying power and because the products are standardized, the buyers believe they can find an equivalent product by placing one vendor against another (Porter 2008, Peppard 2000). The price of the finance products, such as mortgage and insurances, also represents a significant fraction of buyers' budgets, so they tend to go around and bargain hard (Porter 2008). Therefore it is essential to provide superior customer value by delivering superior quality of services (Peppard 2000).

Secondly, the link between the quality of services and human resources is clear. As long as people provide services, their job satisfaction, motivation and work environment plays an important role in it (Gupta, McDaniel and Herath 2005; Reichheld 1993). Human capital is also a verified source for sustainable competitive advantage in RBV because competitors cannot copy it. Thirdly, customer satisfaction impacts on customer's loyalty, which has a significant effect on retention rates and financial performance (Yap et al 2012; Peppard 2000).

The next theory chapter of this study will concentrate on issues related to customers' satisfaction, trust and loyalty. It is essential to comprehend the factors related to customer retention and defection for that a long customer relationship is more profitable for a company (Yap et al. 2012), thus is safe to make an assumption in the

light of previous approaches to the different theories that customers loyalty is one of the key elements for gaining competitive advantage and the source for it seems to be superior service, which is a strategic decision and not resource based advantage.

Again, it is safe to argue that by delivering superior service, the organization will improve the satisfaction of its customer by turning them into loyal customers. As a result, the retention rates will become lower and not so many customers will be defecting to competitors. This will have a positive effect on the company's financial performance and it will gain competitive advantage. The theoretical framework for this is presented below.



**FIGURE 2: Theoretical framework for competitive advantage**

The next two chapters will exploit this framework by starting from *customer loyalty* and how does it lead to competitive advantage. It will research how customer loyalty is defined and what impacts on it. The chapter will also clarify the various studies of customer satisfaction linked to loyalty. Then the fourth chapter will go through the service aspect by studying the factors that lead to *service excellence*, in which human resources have a central role.

### 3 LOYALTY EFFECT

In the exceedingly competitive environment of finance industry, the slight differences that exist in financial products and services together, with increasingly demanding customers, have led to a great transformation in the industry (Peppard 2000). The traditional product-oriented bank is becoming more and more customer-oriented with the main mission of achieving of customer loyalty (Beerli, Martin and Quintana 2001). Customer loyalty deemed critically important in today's business, and finance companies are no exception (Yap et al. 2012).

Customer satisfaction and customer loyalty have gained lots of research attention in strategic marketing literature in recent years (Reichheld 1990; Hallowell 1995; Bowen & Chen 2001). The main stream of scholars agreed that customer satisfaction affects positively on a firm's financial performance by various ways. Lots of literature also studies the same issue from a viewpoint of customer loyalty (Yap et al. 2012; Reichheld 2003)). Also some studies suggest that customer's satisfaction doesn't necessary lead to continuous re-purchases and that satisfied does not equal loyal (Reichheld 2003; Bowen & Chen 2001)

Customers have become more conscious of their value towards finance service firms. Due to the highly competitive environment of finance firms, customers have become the key factor in determining the success of the enterprises (Yap et al. 2012). Studies have also shown that the long-term success is very much dependent on the nature of customer relationships; therefore companies' with loyal customers have empirically been proven to beat its competition (Anderson & Fornell 2000). Loyalty effects on banking sector by lowering the costs of servicing customers, reducing market expenditure and improving the cross-selling opportunities (Levesque & McDougall 1996).

The aim of this chapter is to go through the different variables concerning customer loyalty, such as satisfaction, commitment, emotions, trust and switching costs, and highlight, how customer loyalty effects on a company's financial performance by assessing retention rates and customer defection. In the end, this chapter will provide

an answer for the subject of *customer loyalty* as a part of the competitive advantage framework, which means that it will cover the nature of *loyalty*.

### **3.1 The sources of loyalty**

Various scholars have researched the subject of loyalty. Customer loyalty has been recognized as the key element for long-term profitability, success, and competitive advantage (Yap et al. 2012; Yang & Peterson 2004) so this study also presumed this approach. Still the concept of loyalty is quite vague and greatly debated when the factors leading to it is being studied. As for this study, other researches must be reviewed to find out, what are the key factors, affecting to customer loyalty.

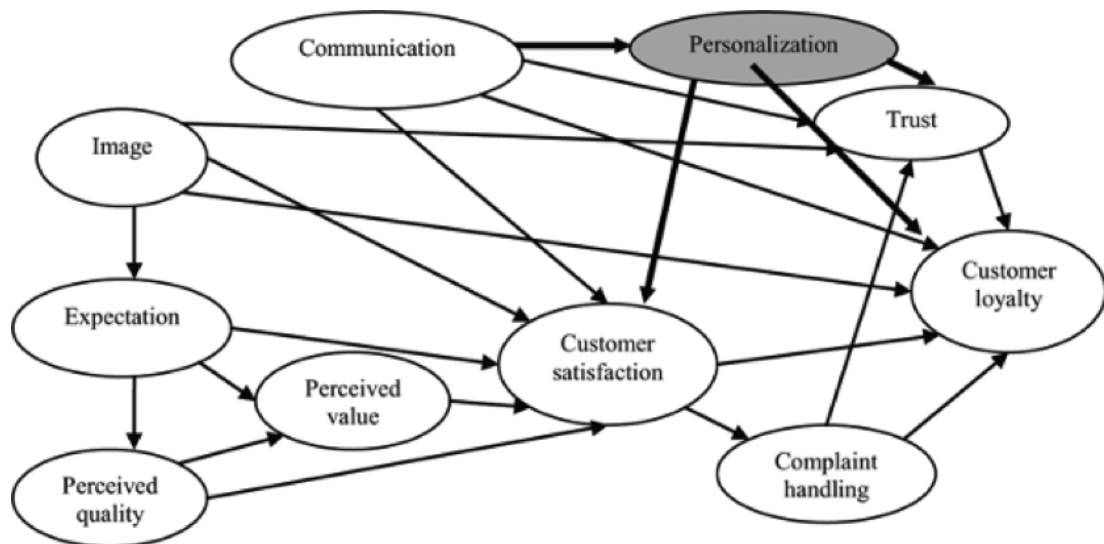
#### **3.1.1 Trust and commitment**

Trust and commitment have been explained to create loyalty (Martin, Gutierrez and Camarero 2004; Morgan & Hunt 1994). Morgan and Hunt (1994) defines trust exist, when one party has confidence in an exchange partners reliability and integrity. They also describe that trust is closely related to “state of willingness”, where the other party is willing to serve the other and take on some risk concerning to the other. The researchers point out the value of communication in creating trust and warn companies from opportunistic behavior, since it will result to decreased relationship commitment because partners won’t trust each other.

Dimitriades (2006) found also a strong link commitment and loyalty, even though the link between loyalty and satisfaction was much stronger, it was still noticeable. In another research, the results were opposite; trust played a bigger role than satisfaction in the creation of loyalty (Ranaweera & Prabhu 2003). This still is not an important issue, because the fact remains that perceived service quality is the factor, where trust and satisfaction are derived from (Yap et al. 2012).

Ball, Coelho and Vilares (2006) studied the relationships within loyalty. They explored the European Customer Satisfaction Index basically added two new elements in to the earlier ECSI framework. They suggested that the quality of service impacts on satisfaction, and satisfaction has a positive effect on trust and this trust

will ultimately have a positive effect on loyalty. The other new element in their framework, complaint handling, also had a major impact on satisfaction, trust and loyalty. But also in this research, satisfaction was the most dominant single factor for loyalty, while its coefficient was 0,795 and. The same coefficient for trust was 0,485.



**FIGURE 3: The updated European Customer Satisfaction Index by Ball et al. (2006)**

Another new element that eventually effect on loyalty was the expectations of a customer. The level of expectations defines and impacts on a customer, and how the customer experiences a service. A customer, with low expectations, will get more satisfied from average service level, than a similar customer with higher expectations (Ball et al. 2006). This insight puts the focus on the customer, as his knowledge and past experiences will define, how does he see and feel a received service or a product. This view is under a debate, because some researchers argue that customer's expectations have no or very little impact on satisfaction (Martensen, Gronholdt and Kristensen 2000).

### 3.1.2 Switching cost

Beerli, Martin and Quintana (2004) studied customer loyalty in retail banking market. Their empirical analysis, constructed on structural equation modeling, demonstrated that both satisfaction and switching costs can be regarded as loyalty antecedents. Again, satisfaction played bigger role with coefficient of 0,833, when same figure for switching cost was 0,182. Their results still corroborates with the earlier studies (Klemperer 1995), where high switching costs impacted on the probability that customer will remain loyal in terms of purchase behavior, because of the risk involved in switching costs and the accompanying decrease in the appeal of other alternatives.

Other important discovery that Beerli and his research team (2004) confirmed was that satisfaction is antecedent of perceived quality in the retail banking market, and not the opposite, where perceived quality is considered an antecedent of customer satisfaction. This fact enforces the framework in this study, where it all starts from *service excellence*.

Yang and Peterson (2004) studied the same phenomenon from a different angle. Their web-based survey of online service users indicated that loyalty is the end product of customer's perceived value and satisfaction. In their research, switching costs did not have an effect on loyalty, unless the perceived value and satisfaction that the company is delivering is above its industry mean. They suggest that switching costs could serve as an exit barrier, but only when a company's services are above average. Thus, creating customer value is the center of business strategy, not maximizing profits or shareholder value (Reichheld, Markey Jr and Hopton 2000).

More precise study (Sharma & Patterson 2000) that was conducted in financial planning services parallels with the previous. Their result indicated that the impact of satisfaction is weaker under situation of high switching costs than under alternative situations. They argue that a customer will tend to continue the current relationship even thou the relationship is less satisfactory, if the customer perceives that the psychological and economical costs of creating a new relationship is too high. With

this they confirmed the earlier studies (Porter 1980) by saying that switching costs acts like an exit barrier in the adviser-client relationship and that switching costs can act like a binding element between relationships with weak satisfaction.

When the researchers (Sharma & Patterson 2000) added the element of attractive alternatives into their framework, the results changed. With a high competitive attractiveness, which indicates that there are many “attracting” competing vendors available, the impact of satisfaction on loyalty becomes higher than in situations, without alternatives, where the customers are viewed “hostages”. Therefore, a customer will remain with the current company only when satisfaction is high. The researchers also propose that customers with low satisfaction, as known as hostages, will quickly defect when alternatives become available (Sharma & Patterson 2000; Reichheld 2003). Thus there has been a false loyalty towards the company. The results are suggesting that satisfaction will increase customers switching costs, which will make them more loyal towards their vendor (Jones & Sasser 1995). Thus the idea is that the relationship is dedication-based, in which a customer stays because of the genuine satisfaction towards the vendor, and not constraint-based, in which the customer believes having no other option (Bendapudi & Berry 1997).

Sharma and Patterson’s outcome is very similar to the previous (Yang & Peterson 2004), where they stated that switching costs would only have an impact in relationships, where the level of satisfaction that the company is delivering is above average. In other words, higher satisfaction will have an effect on switching costs, which will impact positively on loyalty, thus the bargaining power of a customer is being made weaker (Porter 2008) and the switching incentives are being decreased (Oliver 1999). Higher satisfaction relationship (dedication-based) is also likely to lessen the interest in alternatives (Bendapudi & Berry 1997)

### 3.1.3 Satisfaction

This subject is defined by many ways in academic literature. One of the commonly used in academic literatures is Oliver’s definition (1999), in which he describes that satisfaction as a fulfillment response, based on service or product, which is evaluated for one-time consumption or ongoing consumption. It can be also described as post-



purchase evaluation of service from the customer experience point of view (Sharma & Patterson 2000). Consequently, satisfaction is pleasurable fulfillment outcome between pleasure and displeasure and it is the building block for loyalty (Oliver 1999) and satisfaction is a concept very close to perceived value (Beerli et al.2004).

Yu and Dean (2001) explored satisfaction from a bit different perspective. They stated that customer satisfaction has two sides in it, the cognitive component and the emotional component. They argued that most of researches of the subject have been conducted from the cognitive perspective, which refers to customers evaluation of perceived performance in terms of its value and adequacy and contrasting it to their expectation standards. Their empirical finding gave evidence that the emotional component, which includes emotions such as happiness, surprise and disappointment, had a stronger correlation coefficient for positive word of mouth, switching behavior and willingness to pay more than the cognitive component. Positive emotions are stronger indicators for loyalty than cognitive factors. Their finding also suggested that negative emotions would easily lead to complaint behavior, and eventually that emotions influence on decision making.

Bolton (1998) studied, how the role of satisfaction effect on the duration of customer's relationship. His results revealed that the level of satisfaction evolves with time so customers who have been longer time in a company, give value on the earlier experiences with the company. They weigh the prior service quality more heavily and places less weight on the new information. This means that they won't defect so easily as the first conflict arises. The findings indicated that organizations should give more attention to new customers, whom have no good experiences yet, because they are more likely to defect if a conflict arises (Page, Pitt and Berthon 1996). They also tend to complain more easily (Bolton 1998). The research from insurance companies customers revealed that customers whom have purchased lots of times, tends to stay more loyal, so the deciding factor was the number of purchases (Page et al. 1996).

It is clear in the academic world that customer satisfaction is the key element for gaining customer loyalty and the two variables have a significant positive relationship with each other (Hallowell 1996; Chien, Chang and Su 2003; Yang &

Peterson; Yap et al. 2012; Sharma & Patterson 2000; Beerli et al. 2004; Reichheld & Sasser 1990). The evidence shows that satisfaction has the highest impact on loyalty, which would make it the priority number one for finance organizations. Even though Bowen and Chen (2001) made a discovery that satisfaction doesn't equal to loyalty and they argued that totally satisfied customer doesn't choose the same provider in various cases. Their testing was done to hotel customers, which explains this exception in results. Still the widely agreed approach is that high level of satisfaction will lead to increased customer loyalty (Jones & Sasser 1995; Reichheld & Sasser 1990).

Organizations should also focus on creating positive emotions and not just top-line service functions for it seems that the emotional component plays a major role (Yu & Dean 2001; Bagozzi, Gopinath and Nyer 1999). These arguments are supported by total customer experience theories, where the experience of customer involves both cognitive and emotional components (Frow & Payne 2007; Mascarenhas et al. 2006).

### **3.2 Improved financial performance**

The whole idea behind achieving customer loyalty is its impact on a company's financial performance. Companies must get enough revenue to be able to sustain its processes and activities, such as service, sales and development; customer loyalty is the path for long-term business profitability. Findings also suggest that customer satisfaction is the leading factor for loyalty, and loyalty can be viewed as competitive advantage (Yap et al. 2012), because satisfied customer will stay with the same vendor and concentrate all of their businesses with one bank (Reichheld 1993). Thus, banks should develop their strategies for making their customers more loyal, in other words improving customer retention. Banks should also overcome the problem of customer switching and defecting for gaining competitive advantage (Yap et al. 2012). The main reasons that this study's literature research shows how loyalty improves financial performance are *customer retention*, *cost of customer*, *customer behavior* and *improved profitability*.

*Customer retention* is one of the main causes for improving cash flow. The reason is, obvious; the longer the duration of the relationship is the more it will give revenue

for a company (Bolton 1998; Jones & Sasser 1995; Page et al. 1996; Reichheld 1993; Zeithaml et al. 1996). Customers represent a company's future cash flow and they should be viewed as assets, thus the strategies should be built to stop assets from defecting (Page et al. 1996). The fewer customers are defecting, the more profit an organization will make by continues cash flow (Reichheld et al. 2000; Zeithaml et al. 1996). Reichheld and Sasser (1990) also agreed with the latter, and they state that most of companies' systems are false because they focus on current period costs and revenues and ignore expected cash flow over customer's lifetime. Researchers imply that customer defection can have more to do with a service company's profits than scale, unit costs, market and many additional factors normally associated with competitive advantage, which makes it extremely important element to be improved (Reichheld et al. 2000).

Other product of lowered defection rates is the *cost of customer*. Business analysts recommend that the cost of attracting a new customer is much more higher than retaining the old customer (Page et al. 1996; Reichheld & Sasser 1990; Peppard 2000; Zeithaml et al. 1996) since there is no need for advertising, promotion and other operations (Page et al. 1996; Reichheld & Sasser 1990; Zeithaml et al. 1996), and the cost of keeping existing customers through attention of quality of service is significantly lower than acquiring new customer (Page et al. 1996). Organizations lack the information of how much it really hurts them to lose existing profitable customers. As the purchase rise, operating costs decline and the organization can serve its customers more efficiently (Reichheld et al. 2000). This indicates that the monetary cost is not the only benefit but also the quality of the firm's output, since it has the knowledge from its customers and it is capable to serve their needs (Reichheld & Sasser 1990).

The *customer behavior* has an impact on financial performance in few ways. Firstly, it seems that loyal customers tend to buy more frequently and they devote a larger share of their wallets (Reichheld 2003). In other words, they bring more money and the benefit that a company gains from a loyal customer is greater than from a disloyal customer. The empirical findings also suggest that loyal customers complain less, so they don't use companies' resources so often (Jones & Sasser 1995; Zeithaml et al. 1996). In a many occasions, companies have also been able to charge more from

loyal long-term customers, as the customers tend to business with partners they have trust in (Reichheld & Sasser 1990). The final benefit that has been highlighted in many studies is that loyal customers give recommendations to their friends (Reichheld 2003; Samson 2006; Keller & Fay 2012).

The positive word of mouth acts as a powerful and free marketing and again, saves marketing costs and for some industries, it can be responsible for over 50% of the new customers (Reichheld & Sasser 1996). More recent studies have also researched to effect of the opposite, negative word-of-mouth. According to the studies, negative word-of-mouth can be a more accurate predictor of a companies' success by predicting decreases in revenues, rather than revenues increases, which positive word-of-mouth does (Samson 2006). The empirical evidence suggests that negative word-of-mouth is a good measure to capture both loyalty and advocacy among existing customers (Samson 2006).

The most recent studied in this field (Keller & Fay 2012) shows that positive word-of-mouth of the key element of sales. People are much more willing to buy a service, when it is recommended by a friend than an advertisement. As 75% of consumer conversations about brands happen in face-to-face, companies should not ignore its value (Keller & Fay 2012). The researchers suggest that marketing is only to create the conversations and word-of-mouth is the factor, which will effect on purchasing behavior.

All the previous subjects above: customer retention, cost of customer and customer behavior, *improve the profitability* of a company, which results as competitive advantage. As for retention, when a company can cut it retention rate in half, it can more than double its growth rate, by assuming a common business defection rate 15-20% (Reichheld & Sasser 1990). Banks tend to rank between 15-25% with their defection rate (Kish 2000). By lowering the retention by 5%, a banks profit increased 85% and in other industries the same figure was between 25-100 percent (Reichheld et al. 2000).

Hallowell (1996) also came to same understanding, when his research on retail banking clients indicated that there is a connection between customer loyalty and

profitability and it can be interpreted from financial statements with ROA (return on assets). The ACSI (American customer satisfaction index) research also confirmed this relationship within ROA, and further displayed that companies with higher customer satisfaction index, have stock price returns above the market adjusted average (Anderson & Fornell 2000).

Ittner and Larcker (1999) also researched the same area. Their idea was to find out, how well, do intangible assets predict future financial performance compared to historical accounting measures. As a result, the relations between customer satisfaction measures and accounting performance, was positive, statistically significant, and relevant to stock market. The leading factors for this result were the cost and profit advantages, as well as the spillover effects such as word of mouth, which advertises and enhances the reputation of a company. Also Stein and Bowen (2003) indicate that economists have argued that a one percentage-point increase in the Center's customer satisfaction index for a company correlates to its market value with an increase of 3 percent.

### **3.3 Winning the competition**

As the previous studies show, satisfaction is the key element for loyalty, which will give a company an edge over its competitors. The problem among managers has been the sufficient knowledge of the levels of satisfaction. They are misled, by believing that satisfied customers are loyal, and by doing the business by traditional way where every customer should be treated the same.

First of all, the most important thing that needs to be understood is that satisfied customer does not equal loyal customer (Reichheld 2003). Brain & Company's research evidence showed that satisfied customers, between 65 and 85 percent, would defect (Oliver 1999). Other research by Bowen and Chen (2001) also provided evidence that satisfied customer tend to defect. Their survey measured satisfaction by a seven-point scale, where 1=dissatisfied, 4=satisfied and 7=very satisfied. The results demonstrated that, as the customer satisfaction measurement goes one unit up, from 6 to 7, the customer loyalty increases over 100 percent. This indicates that managers should realize that having satisfied customers is not enough; they must

have very satisfied customers for gaining the loyalty effects and generating superior long-term financial performance (Bowen & Chen; Reichheld 2003; Jones & Sasser 1995). This issue is even more critical for industries where competition is intense, such as financial services (Jones & Sasser 1995).

Totally satisfied customers should be the top priority (Jones & Sasser 1995) for top-line growth (Reichheld 2003). Managers are misguided, when they try to make every customer very satisfied, because all the customer should not be treated the same (Bendapudi & Berry 1997; Reichheld 1993; Jones & Sasser 1995). The investment required to achieve this will not provide an attractive financial return and therefore perhaps is not a wise use of resources. Customers stereotypically fall into one or two categories; the right customers whom the company should be able to serve profitably and well, and then the wrong customers, whose needs the company can't profitably serve. Having unwanted customers is normally a result of flawed attracting processes. Such customers tend to utilize a large portion of the company's resources, thus managers should actively discourage the organization for winning them over (Jones & Sasser 1995). If some customers don't stay and become profitable, companies should not invest in attracting them (Reichheld & Sasser 1990).

Companies shouldn't either concentrate on clients that are the easiest to attract or the most profitable in short-term but they should focus on clients who are likely to do business for longer time. Customers that buy at the standard price are more loyal than those who go for continuous discounts (Reichheld 1993).

Other researchers also support this view. Hallowell (1996) and Peppard (2000) suggests that banks should not endeavor to please every customer; instead they should focus on customers whose needs they can meet better than their competition. Hallowell (1996) continues that the right customers are the ones who will stay loyal and who will spread positive word-of-mouth (Zeithaml et al. 1996) and in the end, they will be the source of superior returns. The best 10 percent of customers is empirically proven to be 5 to 10 times more worthy than average customer, in terms of potential lifetime profits (Reichheld et al. 2000). Kish (2000) enforces the Pareto's law to bank environment by stating that banks earn 80% of their revenue from just 20 percent of their customers. This is the segment in which the banks should be

focusing. Selden and MacMillan (2006) adds to previous companies should identify the key customers and develop a deep understanding of their needs. After that the companies should recognize other customer segments with almost similar needs, and then expand to those segments. Their idea is fundamentally still the same, pleasing the customers at the highest level for gaining their loyalty.

The conclusion from this chapter would be that companies should devote their resources for turning their customers to very satisfied, which will lead to loyalty (Reichheld 2003). Customers should not be treated the same, and the sales resources should be allocated to the direction of profitable customers, whom the company can serve profitably. This way a company can achieve competitive advantage in intense market environment. The next chapter will go through how to create loyal and very satisfied customers, the origin of competitive advantage.

#### **4 SERVICE EXCELLENCE**

Nowadays companies are facing markets, where the customers are being saturated with companies' core products, thus companies, in search of growth, are increasingly turning to services (Sawhney, Balasubramanian and Krishnan 2004). The importance of good service has become more and more essential for creating competitive advantage. As for finance companies, such as insurance companies and banks, where the core products are very similar among the industry (Beerli et al. 2004), the significance of service quality becomes even clearer (Peppard 2000).

The different approaches to competitive advantage in the chapter two, gave solid evidence that intangible assets and customer satisfaction are part of it (Porter 1996; Barney 1991; Peteraf 1993; Pringle & Kroll 1997; Chan 2004; Wright et al. 1994; Coff 1997; Powell 1995; Tena et al. 2001; Grönroos 1996; Wirtz et al. 2008). Chapter three gave more evidence on the importance of customer's role in it, as satisfaction is the lead cause for loyalty, and that companies should give more value on customer retention (Reichheld 1990; Hallowell 1995; Yap et al. 2012; Reichheld 2003) and raise the switching costs to prevent customer from being lured away (Beerli et al. 2004; Klemperer 1995; Yang & Peterson 2004; Sharma & Patterson 2000).

This final theoretical chapter will explore the connection between customer loyalty and the quality of services, with an approach of intangible assets. The earlier chapters already suggested that satisfaction is the main factor for creating loyalty (Reichheld 2003) and that satisfaction is derived from the perceived quality, which a company delivers to a customer. It was also suggested that there is a strong link between perceived quality and services (Yap et al. 2012; Baal et al. 2006). Thus, this chapter will go even further in studying these relationships and investigate, what kind of service features will lead to loyal customer, in other words, provide a competitive advantage. "A quality based-based competitive position can be more sustainable than one built on traditional strategies such as cost-leadership. Therefore, once a firm establishes its competitive advantage based on service quality, its future performance should be enhanced as well (Rapert & Wren 1998).



#### 4.1 Service quality

The studies show that service quality is a key antecedent to customer satisfaction and that quality service is considered as an essential strategy for success and survival in today's competition (Zeithaml et al. 1996; Wirtz et al. 2008). Yap et al. (2012) empirical findings suggested that almost half of the satisfaction experienced by customers is from perceived service quality, such as recent consumption experience of associated service like customer service. The correlation between service quality and satisfaction was 0,453. Thus, the level of satisfaction that customers are getting is a good indicator of the level of services they are receiving. This study also focuses on perceived service quality for it includes evaluation of customer service and enabling service features, such as range of services, and because finance industry is a service industry (Yap et al. 2012).

Jones and Sasser (1995) states that there are four elements that affect customer satisfaction: the basic element, which is the expected service or product, basic support service, a recovery service for counteracting service failures and bad experiences and finally, the extraordinary services for meeting customers' personal preferences. Companies must excel in all of these fields to avoid dissatisfaction (Jones & Sasser 1995). This study will also take this approach and give more value on other elements, which have got more attention among academics, such as recovery services.

Increasing the service level is essential of banks to compete because of the rise of customers buying power (Peppard 2000) as well as in other service organizations, where customer's perceived quality has started to be key determinant of business performance (Sureshchandar, Rajendran and Anantharaman 2002; Yu & Dean 2001). Therefore, if a company wishes to gain loyalty and lower its customer defection, it must offer services that are superior compared to its rivals (Oliver 1997). It is not enough to have the four service elements in a place, because averagely satisfied customers are not loyal (Reichheld 2003).

Zeithaml et al. (1996) studied the behavioral consequences of service quality. Their empirical research provided positive support to their framework, in which had

categorized service quality as superior and inferior. Superior service quality led to favorable behavioral intentions, such as loyalty, increased spending, better price premiums and positive word-of-mouth. As an opposite, inferior service quality led to defection, decreased spending, increased complaining and negative word-of-mouth. The outcome of their study supports the idea that superior service leads to loyal customers.

Rapert and Wren (1998) continued the earlier study (Zeithaml et al. 1996). Their implication was that service quality enhances financial performance and it is an element of a sustainable competitive advantage, hence organizations should focus on superior organizational performance. The researchers explain that the superior organizational performance is likely achieved through employees. They agreed with other academics (Barney 1991; Peteraf 1993; Youndt et al. 1996) that intangible assets, which are impossible to copy perfectly, are the area to focus on. In other words, the findings are similar to the earlier studies.

Again, service quality got attention, when Caruana (2002) increased the empirical evidences of the relationships between service quality and customer satisfaction. The evidence from retail bank customers implies that customer satisfaction plays a mediating role in the effect of service quality on service loyalty. Simplified, service quality leads to loyalty. The variance between those two factors was 53 percent, which indicates that service quality is the single most important element for satisfaction. More important finding was that education and age have a significant impact on the service loyalty among retail bank customers, while marital status and gender did not effect on the outcome. While people in the ages of 30-34 years had a service loyalty of 73.9%, the same figure for 25-29 years old was only 57, 78%. The results also suggest that different social classes have different influence on service loyalty. While the education goes up, the service loyalty comes down.

The effect, which service quality has on a customer, is broadly researched, and it is clear that the quality factor is a significant determinant of customer satisfaction. The value chain model by Porter and Millar (1985) still applies, except recent findings give more value on the service area, and the researches provide evidence that service

quality is as valid method for achieving competitive advantage than cost advantages based on economies of scale are (Rapert & Wren 1998).

As for business performance, Wirtz et al. (2008) demonstrates a different approach to the subject. In their model, they present the five key elements to *service excellence*. The five elements that effect on service quality are *motivation the staff through rewards and recognition, correct recruitment process, extensive investment in staff training, successful service delivery teams and empowerment of frontline staff*. Their study also suggests that human resources are in the center of service quality. A lot of gravitation is also given to strategic decisions and the researchers say that companies that the five factors has to be aligned around the company strategy. Aligning human resource practices to a company's strategy gives a competitive strategy (Wirtz et al. 2008).

Next, this study will concentrate on the various functions of services. If the customer satisfaction can be created from superior service quality, it must be clarified, what are the service areas, where organizations must succeed in? Lots of gravitation has been put under human resources, thus that area will be covered next more precisely.

## **4.2 Intangible assets as the key element**

Service is a core part of the service organization's product and front-line staff tends to be the most visible element to customers, thus very significant for service quality (Wirtz et al. 2008). Numerous service quality, human resource management and marketing researchers, makes a connection between the quality of service and its delivering assets, employees (Duncan & Elliott 2004; Gustafsson & Nilsson 2003; Sureshchandar et al. 2002; Bendapudi & Berry 1997; Keaveney 1995; Reichheld et al. 2000; Reichheld & Sasser 1990; Page et al. 1996). Services are performances, where employees play a major role in shaping the service experience (Writz et al. 2006; Bendapudi & Berry 1997), as the customer's willingness to recommend a company to a friend is based on how well he is treated by frontline employees (Reichheld 2003). Therefore it is very central to identify the factors, that effect on employees and on their input. Also this study will give weight on customer service, since it's is a company's engine that aims to keep the customers that the company

already has (Wirtz et al. 2006; Page et al. 1996), therefore it is mostly responsible of customer retention (Keaveney 1995).

First of all, there is a significant positive link between the quality of service that customers perceive and employee's job satisfaction (Reichheld et al 2000; Reichheld 1993; Sureschandar et al. 2002; Schlensinger & Zornitsky 1991; Hartline & Ferrell 1996). Reichheld et al. (2000) argue that organization should focus on employee retention, for it increases job pride and increases the level of service. In another article, Reichheld (2003) adds that as the employee stays longer, the productivity, knowledge and experience also goes up, enhances again the quality of service and customer loyalty. Customers build trust with employees, not the executives, and when an employee leaves, the bond is broken (Reichheld 2003).

This means that employee retention is key to customer retention because long-term employees can serve customer better than newcomers, thus, employees, who deal with customers most frequently, such as customer service, have a powerful effect on customer loyalty (Reichheld 2003). This view is also backed up by a research made by Schlensinger and Zornitsky (1991), except their study revealed that newcomers have a decent job satisfaction, but then the satisfaction goes down. Their study showed that after an employee has worked five years, the satisfaction will go up again. This result is mixed with the others, but the outcome is the same with a long horizon of time.

Sureshchandar et al. (2002) reached the same kind of agreement in their study. They aimed to solve relationship between total quality service and customer's perceived value. Their study indicated that employee satisfaction effects on customer's perceived service quality. Other factors were human resource management, service culture and top management commitment. The commitment of management is forgotten in many organizations. They create the service culture and are responsible of showing the way (Hartline & Ferrell 1996). Reichheld et al. (2000) also states that HRM is very much responsible of employees' job satisfaction. Organizations should also rethink their measurement and rewarding systems so that they would encourage employees to take the right kind of action, as well as try to create a zero-defection environment (Reichheld 2003; Wirtz et al. 2008). Companies can't reward

employees based on individual performance, yet hoping for information sharing and teamwork and the same goes for managers (Wirtz et al. 2008). Increased salary also tends to boost employees' morale, commitment and job satisfaction (Reichheld 1993; Reichheld 2003), but this also has to be aligned with a company's strategy (Wirtz et al. 2008). A challenge for service organizations is to get their human resource management right, as the evidence shows that the most successful service organizations have a strong commitment to effective HR management, including training, recruitment, motivation and retention of employees (Wirtz et al. 2006).

Other important HRM aspect, employee training and development should also be taken much more seriously, if a company wants to improve its level of service (Wirtz et al. 2008). Companies often make the error of viewing employee training as a cost rather than an investment, and those few companies who view it as an investment, limits the training to technical aspect rather than aiming to develop more holistically (Wirtz et al. 2008). Again the researchers highlight the importance of aligning the HRM processes with company's strategy.

Other important factor concerning job satisfaction is that it relates to employees own perception of his capability to serve (Wirtz et al. 2008; Schlesinger & Zornitsky 1991). A study was done in insurance industry environment, and it suggested that employees who feel that they can deliver services without restrictions are more satisfied, thus empowering the work force will increase their job satisfaction (Schlesinger & Zornitsky 1991).

Hartline and Ferrell (1996) recommend that managers should recognize that service employees have a strong influence on how customers experience a service. Their empirical investigation also points out that empowering does raise employees' job satisfaction, as feel better about their jobs, therefore are more enthusiastic about serving customers. This is because their capability to serve is better with fewer limitations and so their self-efficacy is improved, thus they have more control over the service encounter. They can response better to customer needs, which will impact on improved customer satisfaction. On the other hand, empowered employees may become frustrated in their attempts to balance role demands, followed by increase in

role conflict and many negative outcomes for employees and service quality (Hartline & Ferrell 1996).

In many service industries, including financial industry, customer service is the frontline operator between a company and its customers. In a financial industry, there is a positive correlation between the quality of customer service and companies financial performance (Duncan & Elliott 2004). The research within Australian banks, done by these two researchers, indicated that financial institutions that chase improved financial performance through single-minded pursuit of lower costs might be fundamentally misguided, as the technical efficiency rises, customer service quality falls (Duncan & Elliott 2004).

Their study supported the argument that financial institutions should focus on competitive advantage through service quality, rather than through operational efficiency. Reichheld (2003) also favor this, as he argues that managers should increase service employees' salaries and increase their job satisfaction to avoid customers for defecting. Another study (Wiley 1991) constructed on the field of retail stores suggests that there is no positive correlation between customer service and financial performance. But as this study focus on financial industry, it can be assumed that customer service does have a positive relationship with an organizations financial performance (Duncan & Elliott 2004).

Wiley's (1991) research also implies that there is a positive relationship between customer satisfaction and how employees describe their working environment. Evidence was found that those retail stores, where employees ranked their working environment the highest, were the same stores that were most favorably described by its customers. Therefore, higher job satisfaction leads better service quality, which raises customer satisfaction (Bendapudi & Berry 1997; Keaveney 1995; Reichheld et al. 2000; Reichheld & Sasser 1990; Page et al. 1996).

As earlier researches point out in this chapter, human resources are central element for service quality. The theories also support the competitive approach that is based on dynamic capabilities (Eisenhardt & Martin 2000), such as correct HRM (Hartline & Ferrell 1996; Wirtz et al. 2008; Reichheld 2003). If a company wishes to beat the

competition with service excellence, it has to align its human resources to meet the strategy (Wirtz et al. 2008) and the company should mainly concentrate on that area, without trying to come up with new complex strategies that try to please everyone (Eisenhardt & Skull 2001). In other words, if a company builds its strategic position on customer care, it should focus on that and build more dynamic capabilities around that area, without making the strategies too broad and vague, which only confuses managers (Eisenhardt & Martin 2000; Eisenhardt & Skull 2001).

### **4.3 Complaint management and feedback**

*Complaint management* is a phenomenon that has got a lot of attention among academics in service quality. It has been recognized as one of the most important service elements, which has a huge impact on customer satisfaction (Zeithaml et al. 1996; Yap et al. 2012; Johnston 2004; Johnston & Mehra 2002; Johnston 2001). Managing complaints well and recovering customers after they have experienced service failure, should be cornerstone of a company's customer-satisfaction strategy. An Empirically based research, revealed strong links between effective service recovery, and not only customer satisfaction, but also repurchase intentions, customer commitment and trust and long-term relationships (Johnston & Mehra 2002).

Recent study has shown that complaint management has a significant impact on customer trust, satisfaction and loyalty, and it is highly correlated with service quality and the study captured that banks should not take complaint management lightly, as they tend to do (Yap et al. 2012). Another similar study also linked complaint management as a key determinant of superior service, and the research showed that good service recovery leads to favorable behavioral intentions, such as positive word-of-mouth and loyalty (Zeithaml et al. 1996). Encouraging employees to solve customer problems and exterminate the source of complaints allows the employees to be nice, thus customers will also treat the staff better in return (Reichheld & Sasser 1990). On the other hand, bad service recovery experience led to unfavorable behavioral intentions, like negative word-of-mouth and defecting behavior (Zeithaml et al. 1996).

The size of a firm has also its value in complaint management. Studies show that service recovery and other service practices are better in small firms, where customer orientation seems to be relatively more important and, while in larger firms are more process oriented (Gustafsson & Nilsson 2003). Their study just gives more weight on the importance of meeting customer needs and how important a good positive atmosphere among service employees (Reichheld & Sasser 1990).

Complaint management can also be linked to profit. Research shows that a good complaint culture and a good complaint processes can lead to improved financial performance (Johnston 2001). His research showed that financial benefits are gained by satisfying customer through “staff-friendly” service recovery, and by using information from complaints to enhance recovery processes. His empirical model also found a strong connection between employee retention and “staff-friendly” environment, which indicates that satisfied employees are more capable to provide better recovery services.

Researches of service excellence have likewise drawn attention to complaint management. Johnston (2003) suggests that service excellence is about “being easy to do business with”. The significance of having a good recovery system is critical for organizations, which are seeking to deliver excellent service (Johnston 2003). Nearly 50 percent of his empirical statements that were describing what made service excellent, were about problem solving. Conversely, about 64 percent of the statements that described, what makes a service poor, were also because of problem and complaint handling. His research indicates that problem handling is the key factor of people’s perceptions of poor and excellent service. Other factors for excellent service were: employees’ personal touch and delivering the promise. With this, he backs up earlier studies (Johnston 2001; Yu & Dean 2001), where he indicated that “staff-friendly” environment has an improving effect and that customer’ emotions should be considered.

A study that was done to identify the best practices for complaint management among various industries, including bank and insurance industries, revealed that the speed of problem resolution is vital (Stein & Bowen 2003), recommended by personal contact rather than pro forma acknowledgements. The study also supports



the importance of human touch, like earlier studies (Johnston 2001; Johnston 2003; Reichheld & Sasser 1990). Other important practices were the need for closure and top management involvement in complaints. Johnston and Mehra (2002) say that closure is an opportunity to ensure that the outcome is satisfied for the customer and also a way for an organization to ensure the customer that the problem will not reoccur. Even though top management involvement brought out, the researchers admit that it might be problematic for senior managers to involve with day-to-day complaint processes. The more important role of top management is to create a supportive non-blame culture, where employees are encouraged for complaint management and not blamed from mistakes (Johnston & Mehra 2002). Their other responsibility is to make sure that the organization will learn from its mistakes and that the information concerning the mistakes is spread around the organization and learnt from, so that the recovery processes could be improved (Johnston & Mehra 2002).

*Feedback* is closely related to complaint management for its being customer-centric. Feedback is very important tool for improving services, such as recovery services. By acknowledging the negative feedback from defecting customers, organizations can single out the weaknesses that really have an effect on customer satisfaction, and strengthen them to avoid future defecting behavior (Reichheld & Sasser 1990). The bottom line is that a successful organization must learn how to learn from its mistakes (Reichheld et al. 2000), and not only to learn but also to evolve from customer needs.

In other words, one can say that customer feedback is closely the same thing that customer needs, because feedback is born from the needs and experiences of the customer. Customer feedback can generate ideas for new and innovative services and products and identify new ways for firms to create more customer value (Stein & Bowen 2003), thus improve the perceived value, which has a great effect on loyalty (Reichheld 2003).

#### 4.4 Personalization and customization of services

Other subject that has got attention in service quality researches is personalization. Even though organizations should not construct their competitive advantage on IT-solutions, for that they are easy to copy (Powell 1995; Porter 1996; Peteraf 1993), the organizations should still try to develop their services. As Page et al. (1996) stated, insurance companies should mainly concentrate on relationship building and problem-solving among their existing customers, but at the same time the companies should focus on innovation and differentiation. This way, the companies can build even stronger relationships with the old customers, as their services are more personalized and easier to use. For example, the Union Bank of Norway has a recognition system so they can treat the customers as individuals. As customers walk in, they swipe their back card through a terminal and they are given a special queuing ticket, which defines the service outcome (Peppard 2000).

New customers are also more interested of the unique benefits (Page et al. 1996). Other study from the field of banking, also suggests that companies should provide their key customers highly personalized services (Kish 2000; Coelho & Henseler 2012) and with that the customers satisfaction goes up. Kish's (2000) approach on the subject is that the better banks know their customer, the better the service is that they can provide. This approach is very centered to ability to provide better service from the perspective of a customer. It enhances theories, which suggest that companies should try to please customer's personal preferences and gain loyalty from there on (Jones & Sasser 1995). Kish's (2000) researchers study also backs up the earlier studies, where the role of employees was highlighted as relationship mediators between a company and its customers. When an employee leaves a company, the personalized relationship between the customer and the company is broken (Reichheld 2003).

Service personalization and customization also effect on customer loyalty through satisfaction and trust (Coelho & Henseler 2012; Kish 2000). As a customer perceives that his services are more tailored, his satisfaction goes up. As the satisfaction goes up, the switching costs will rise, and this will increase the attractiveness of current relationship in comparison to alternatives. Customization and personalization is a

way to increase the competitive advantage of organizations services (Ball et al. 2006; Coelho & Henseler 2012).

As the literature shows, personalization and customization are both important element of perceived value (Ball et al 2006; Coelho & Henseler 2012). This indicates that companies should not only concentrate strategic competitive advantage though differentiation of service quality, how it is delivered by employees (Wirtz et al. 2008), but also on personalizing the services and impacting customer's loyalty from that direction.

#### **4.5 Service failures**

Keaveney (1995) conducted a research that added the knowledge of the importance of service quality. The research outlined the major reasons for customer defection, in other words it pointed out, what are the most general reasons for service switching behavior. The reasons for defection fell into eight different factors. The most critical and significant reason for service switching behavior was "core service failure", which explained 24, 6 percent of all the defections. The second and third factors were "bad service encounters" and "price", which both impacted with 19, 9 percent. The two service components together explained 44,5 percent of all the defections, which is almost half of the lost customers (Keaveney 1995) Unexpectedly, "competition" ranked sixth, with only 6,6 percent.

More recent study, conducted by Manrai and Manrai (2007) on the field in banking industry (USA), explored the customers' behavior in a sense of loyalty and vendor switching. They discovered four dimensions of customer satisfaction; personnel related considerations, financial consideration, atmospherics of the facility and convenience. The competitive offerings of the five chosen banks were very similar, which eliminated the financial drivers. The research revealed that customers are less likely to defect from a bank that has a good and kind staff, positive service atmosphere and convenience. The research couple also suggests that banks could differentiate their offerings by marketing these factors more precisely, and not to focus on interest rates and service fees.

Using the earlier studies as a foundation, a similar study was conducted to measure this same phenomenon (Clemes, Gan and Zhang 2010). The study was tested in a Chinese bank environment and it brought new elements in to the light. This study shows that elements such as reputation, effective advertising and switching costs (money, time and effort), as well as price (interest rates) and service quality, effects on customers switching behavior. The researchers also enforce that age and income effects also, as young and high-income groups are more likely to switch their banks (Caruana 2002).

The researches give a good base for understanding customer behavior. It seems that service quality is always highlighted as a key factor. As the industry in Finland is more similar with USA, as the competitive offerings are very similar and also the business culture, it is safe to give more weight on the emotional aspects (Manrai & Manrai 2007). All the studies outline the same issue: customer defection, and that “zero-defection” strategy to target customer loyalty is indeed appropriate approach for gaining competitive advantage (Reichheld 2003). Thus, organizations should recognize the competitive field, and the studies show that it is not single-mindedly the competition between rivals, but more exactly, it is the competition in service quality among the rivals.

Altogether, the empirical studies highlight the importance of employees in customer defection. It seems that a major reason why companies lose customers in service industry is related to bad experiences from personnel (Keaveney 1995; Manrai & Manrai 2007). This evidence, again, gives more gravitation on the importance of front-line employees (Reichheld 2003).

#### **4.6 Towards perfect customer experience**

Building a perfect customer experience has been a way to enhance customer relationship and to build up loyalty (Frow & Payne 2007; Mascarenhas et al. 2006; Meyer & Schwager 2007). Researches indicate that the quality of service and customer satisfaction may actually be declining as customers often experience service that falls well below their expectations (Frow & Payne 2007). The concept of perfect customer experience is relatively new. Its aim is to guide organizations to

consider, how they can create and deliver superior customer encounters. The theory argues that the superior encounters will lead to “outstanding” customer experience (Frow & Payne 2007), which will lead to loyalty.

A research done to senior business leaders and the result was that 85 percent of them agreed that differentiation solely on the traditional elements such as price and delivery times is no longer a solid strategy for businesses so the differentiator of today is customer experience (Mascarenhas et al. 2006). Another survey on customers in 362 companies showed that only 8 percent of them experienced their experiences as “superior”, and yet 80 percent of the surveyed companies believed that they have indeed been providing “superior” experiences (Meyer & Schwager 2007). Thus, the studies show that there is a big gap between the reality and managers beliefs.

Customer experience management is today’s way of thinking businesses, because it reflects and captures the approach of, what a customer thinks about the company, and not what the company knows about the customer (Meyer & Schwager 2007). The researchers suggest that companies should abandon their CRM approach and adopt a more competitive approach, customer experience management (Meyer & Schwager 2007). This is the reason, why Apple conquered the markets; every product they made, was designed to be very simplistic and enjoyable to use and experience (Meyer & Schwager 2007).

Customer experience approach gives lots of value on customer service in every kind. Whether a customer approaches a company by telephone and pays a visit, the company should deliver perfect experience to gain competitive advantage in its whole value chain (Mascarenhas et al. 2006). In other ways, it should deliver service that ranks five out of five in satisfaction level (Frow & Payne 2007). Frow and Payne (2007) also points out that the word perfect should be understood in parenthesis, and that factors like the nature of customer expectations and effective competitive price should be considered when the service is delivered.

This new approach of perfect customer experience involves viewing customer experience from a perspective of normal day-to-day routine actions as well as

including customers' emotional and cognitive side (Yu & Dean 2001). Therefore, the perfect experience can be only created, by influencing on both areas, and this will lead to extremely delighted customers (5 on the 5-point scale), which can be regarded as truly loyal customers (Frow & Payne 2007). Studies have shown (Reichheld & Sasser 1990, Jones & Sasser 1995) that if a customer ranks four out of five, which means that he is still satisfied, his loyalty is only slightly higher than a customer, who ranks one out of five (Frow & Payne 2007).

As Grönroos (1996), Meyer and Schwager (2007) points out, a customer's perceived value is created and delivered over time, as the relationship between the customer and a dealer develops. Frow, Payne (2007) and Meyer, Schwager (2007) agreed the same, that the customer experience should be considered in terms of all the interactions over the lifecycle and not just for the sales and service activities. The researchers above also add organizations should continuously learn from their customers' feedback and enhance their service activities based on the feedback.

The importance of workforce is also focused. Teamwork is essential among employees. Each person has to share the responsibility of achieving perfection during every step of transactions, and this can potential outcome only when the employees share a positive attitude (Frow & Payne 2007). Mascarenhas et al. (2006) also agreed that one major source for perfect customer experience is employees. They suggest that organizations should provide real emotional experiences to their customers by delivering entertainment, friendly and caring service, belongingness and memorable and engaging experience. Meyer and Schwager (2007) seal the subject by stating that customer experience does not improve until it is the top priority of a company, and all of the company's processes must reflect that ideology.

Like human resource theorists (Barlett & Ghoshal 2002) support the importance of human capital, can total customer experience also be categorized as intangible asset that is extraordinarily valuable in terms of customer loyalty and referrals (Mascarenhas et al. 2006).

Overall, this chapter raises the importance of quality of services, as they need to excel past the average service level (Reichheld 2003; Zeithaml et al. 1996). Thus, banks and insurance companies should put focus on delivering the extraordinary component (Jones & Sasser 1995; Frow & Payne 2007). The means for accomplishing this is to adapt the customers' experiences and to build the services to back it up (Meyer & Schwager 2007). This gives lots of attention to customer emotions, as the literature shows that the positive experiences that a customer encounters will lead to loyalty (Mascarenhas et al. 2006). It seems that the experiences can be derived from the employees (Wirtz et al. 2008; Kish 2000) or from the company's operations, such as complaint management (Yap et al. 2012) and customization (Peppard 2000; Coelho & Henseler 2012).

The next table will present the key elements for customer loyalty and service quality, which are found from this study's theory chapters and are the foundation of competitive advantage. This field is also lays the foundation for the empirical research. The three factors; employee's job satisfaction, HRM and empowerment are excluded from the empirical part of this study because of the lack of assets and time.

<b>Service Quality</b>	Service quality, core service, complaint management, extraordinary element, emotions, (employees job satisfaction), (HRM), (empowerment), feedback,
<b>Customer Loyalty</b>	Trust, commitment, perceived quality, satisfaction, switching costs, emotions, durability, and education
<b>Competitive Advantage</b>	Retention, centralized behavior, complaint behavior, word-of-mouth

**TABLE 2: Summary of the key elements**

## 5 RESEARCH DATA AND METHOD

This chapter describes the different methodological aspects associated with conducting the empirical research of this paper. In addition, this chapter will also go through the process of collecting and analyzing the ingathered data, as well as describe the process of choosing the research subjects. The main object of this study's empirical research is to answer the research question: *Where does finance organization derive its competitive advantage?*

### 5.1 Research methods

This research has been done entirely as a qualitative research. Qualitative research indicates on studying a situation or phenomenon in detail (Silverman 2005: 7). It explores a socially constructed reality and places the researcher into the phenomenon or situation of what is studied (Denzin & Lincoln 2000:10); in this case the key elements in financial companies' services, which effects on their customers loyalty behavior. Thus, the qualitative part of this study tries to give a meaning to the studied customers' social experiences (Denzin & Lincoln 2000:10).

Qualitative research relates on working with a small number of cases with the objective to gain knowledge and enhance understanding within a phenomenon (Silverman 2005: 9). It differs from quantitative research in a way that it sacrifices scope for more precise detail by concentrating on a carefully selected few research subjects (Silverman 2005: 9). In many studies, qualitative research statistical argumentation isn't compulsory or reasonable (Alasuutari 1999:39), thus a large number of research subjects isn't often needed, when the aim is not to generalize a theory or phenomenon (Denzin & Lincoln 2000:3). This study uses the approach of qualitative research as it tries to resolve the connections between the research subjects' experiences towards their financial companies, and to discover the dominating factors that make the research subjects become loyal towards their companies.

The phenomenon of competitive advantage that this study explores is wide, and this study aims to develop a general idea of what kind of service attributes in banks and



insurance companies' raises the loyalty of their customers, and which service actions pushes customer to defect. Because this study explores the competitive advantage side and tries to point out the leading factors for it, only few interviewed subjects is not enough, and this is the reason why this empirical study requires a broader scope of research subjects. The philosophical approach that this study assumes is *positivistic*, as this study assumes that reality is objectively given and can be described measurable properties (Myers 2009: 37). *Positivist* studies often attempt to test theory, with an aim to increase the predictive understanding of phenomenon. In this study the phenomenon is increasing the knowledge of financial companies' competitive advantage among 25-30 years old customers.

This study gives value for the richness and flexibility of qualitative data for understanding the causations of outcomes (Silverman 2001:25). In other words it must be found out, what are the subjects (customers) reasons for their feelings and loyalty towards their banks and insurance companies and where does the loyalty or disloyalty derive from, and how all these issues have affected in their relationship with their finance companies. In order to make it more pleasant for the reader to comprehend the course of this empirical research, the following chapters will attempt to describe the research process in an explicit way. This study follows an emotionalism approach of qualitative research idioms, which emphasizes the interviewees' emotions and inner experiences (Silverman 2001: 91).

Compared to quantitative research, which explores the measurement and analysis of causal relationships between variables (Denzin & Lincoln 2000: 10), the purpose is not to generalize a relationship between variables, but rather describe factors that creates loyalty between a customer and a financial company, and thus increase the general understanding of loyalty creation; which service factors a company should focus on to gain its 25-30 years old customers loyalty. The benefit of qualitative research in here is that it allows the researcher to see and understand the context within which customers' actions and decisions take place (Myers 2009: 5). The purpose of this is to generate a more precise framework in loyalty creation for the target group, by analyzing and studying the customers.

An empirical case study approach is used in exploratory way, which purpose is to contribute a new theory or explore and test an existing theory (Myers 2009: 71-73) and they allow a researcher to gain a holistic and meaningful description of real life circumstances (Yin 2003: 2). Silverman (2005) and Stake (1995) explains that there are three different ways to approach case studies. First, the *intrinsic case study* is only interested in the specific case and it is not interested in other cases. Second, the *instrumental case study* provides insight to an issue and the focus is broader than a single case (Stake 1995: 3). There can be research question or a puzzlement that needs an understanding. Finally, the *collective case study* uses several cases in order to gain understanding and knowledge of an issue (Silverman 2005: 125-126). This study follows collective case study settings, as it needs to use several cases to define the competitive advantage puzzlement.

As qualitative research has a flexible nature, a case of a study can be for example, a company, a team of people or a single person. A case could also relate to other issues, such as processes or structures (Koskinen et al. 2005: 157-159). In this study the non-randomly selected persons with *quota sampling* represents the cases. There are also various methods for gathering data in qualitative researches. In this study, interviews are used and it is the main source of primary data, because they offer the possibility to gather rich data about a specific theme as well as concentrate on subjects that are studied, by encouraging and directing the interviewing situations (Silverman 2005: 154 & Myers 2009: 121).

## **5.2 Gathering the research data**

The primary empirical data is achieved from fifty different case studies. The amount of case studies was chosen for gaining a broader understanding of competitive advantage as a trend of the chosen industry, so it can be generalized. The chosen cases represent critical, representative and revealing aspects (Yin 2003: 40). The cases are critical in nature, when they meet all testing requirements for a framework. A representative case catches the characteristics of a common situation and the learning from these cases is assumed to be informative on average (Yin 2003: 41). A revealing case explores a phenomenon that has not been studied before in the same context (Koskinen et al. 2005: 161).

The chosen persons have been selected on the basis that they meet the study requirements, which were their geographical living area and age. Purposive sampling was used, because it allows choosing research subjects by their features that are interesting from the researchers point of view (Silverman 2005: 129). In this study the interesting features were living area Oulu and age bracket from 25 years to 30 years, thus each one of them needed to live in the area of Oulu, with an age of 25-30 years. This age bracket was chosen for the reason that they are an important group of people from the perspective of finance companies. They are the group, who are about to take a mortgage in a near future and their insurance need also tends to go up. It is valuable to study, how does customers at this age bracket become loyal, and which factors are much appreciated.

The final criteria was that a researched subject does not work in a financial firm himself, or either can his / hers husband or wife work in a financial company. This was done to eliminate customers, whom have work related loyalty with their insurance company and bank, as this study was only interested on customers, whose loyalty is based on a company's service excellence.

The interviewing process started on 10<sup>th</sup> of December 2012. All the interviews were conducted in the area of Oulu University, mostly in the corridors and cafeteria's and libraries. Yin (2003: 92) describes that interviews are essential sources of case study data. People were non-randomly searched and pulled in. Only people who looked at the right age were stopped or bothered. The interviewees were first confirmed that they matched the criteria before engaging in. They were greeted, and then asked if they would like to participate in the study by contributing an interview, in which they would be anonymous, and lasts approximately under five minutes. When they accepted, they were led to a quiet place so that there would be no bothering background noises or interruptions.

The interviewees were given the same briefing every time, as they were told that this study explores their relationships with their insurance company and bank. A permission for using a recorder machine was asked, followed by a statement that there no right or wrong answers for the coming questions, as well as that there is no time limit, which means that they don't have to come up with the answers on the

spot. This was done to ease up the tensions and to make them feel more comfortable, which makes them more prepared and open to talk (Myers 2009:121). After every interview, a note was written, if there was some interesting idea or point that the researcher wanted to give value on within the interview. This was done to make the next process, analyzing, more insightful.

The semi-structured interviews include structured and narrative parts (Koskinen et al. 2005: 104). This means that there were pre-formulated questions, which were the core structure of the interviews. The pre-formulated questions acts as a frame for the conversation, and it prepared. Still, there was no strict adherence to them, and shadow questions were raised up depending on interviewees, answers. The interviews started always exactly with the same approach but became more flexible after that, allowing some improvisation (Myers 2009: 125). This improvisation improves the quality of data, thus it gives the interviewee the opportunity to add important insights as they come up during the course of conversation (Myers 2009: 125). Semi-structured, open-ended interviews also allow the subject to freely tell a story about his experiences, feelings and observations.

The approach to the interviewing was adopted from Frederick Reichheld's article (The number one you need to grow, 2003). In his research, the single survey question was discovered, which served as the most useful predictor of customers' loyalty and companies growth; how likely is it that you would recommend (company x) to your friend or college? This question was far superior to commonly used approaches that are used in customer satisfaction surveys (Reichheld 2003). This reasoning was an outcome of a large study, with over 4000 customer responses. Fourteen case studies were created from the survey and 11 out of 14 ranked this approach as the top predictor of previous dilemmas. Thus, the structure of the interviews was built around it. The beginning question in every interview was: "would you recommend your (insurance company / bank) to your friend or college"? The narrative part of the interviews was designed to find out the reasons behind the interviewees' answer to the first question, and also to discover the customer's behavioral factors towards its finance company, such as duration of the relationship, recommendation behavior (word-of-mouth) and centralizing behavior.

All the 50 semi-structured interviews had been conducted on 8<sup>th</sup> of January 2013, with total recordings of approximately 4 hours. The interview frames were not shown to the interviewees beforehand or during the interviewing process. This was to ensure that answers and stories were unbiased as possible. All the interviews were held in Finnish, with one exception, which was held in English. The settings for this empirical research had been chosen for practical reasons, such as the selection of interviewees and the interviewing area.

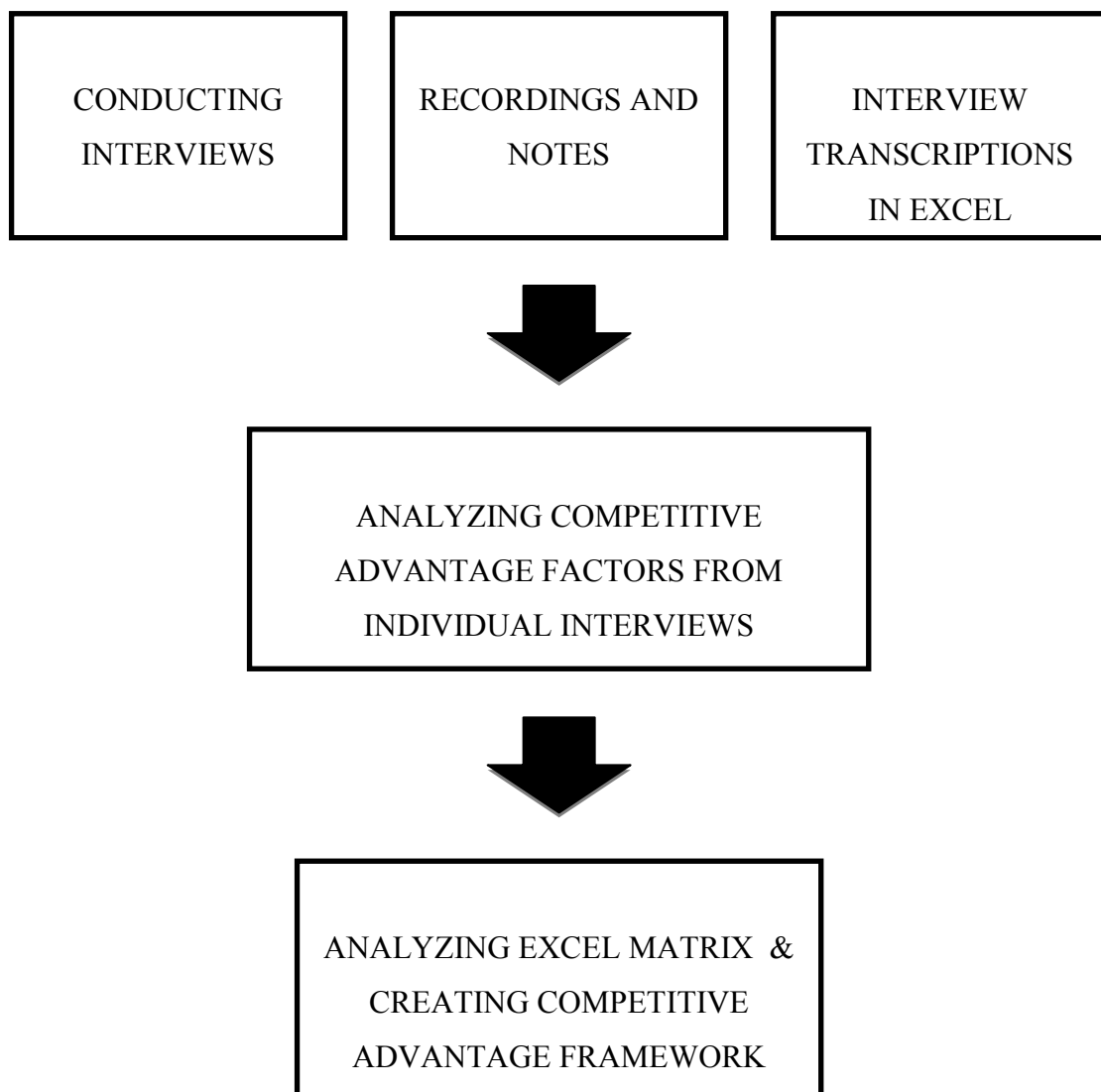
### **5.3 Data analysis**

The analysis of the collected data included two main processes: listening and analyzing the recorded data as single interviews, and then analyzing them as a whole. There are four commonly used ways of analyzing data (Silverman 2005: 173). Firstly, the analysis can be focused on data that has high quality. Second, the analysis can concentrate on a process within that data. Thirdly, the analysis can be limited by narrowing down to one part of that process. The last approach is to compare different sub-samples. The first part of the analysis focused on the data as an individual interview, with an aim to create an understanding what has service quality factors have led to customer loyalty and which factors have pushed to defection. The second process then studies the competitive advantage side. The target is to gain a comprehension that where can the competitive advantage be built on, in other words, which factors in general makes young adults, 25 to 30 years old, to become loyal customers.

Approximately five interviews were done per one day. This was done to avoid the loss of enthusiasm. The interviews were transcribed always on the following day with Microsoft Word software, except Friday's interviews, which were transcribed on next Monday. As Silverman (2005: 184) states that transcription can make it easier to make sense out of recordings and conversations. Then the Microsoft Excel software was used. All the recordings were listened and a matrix table was created, which object was to collect the factors that impacts on customer loyalty and also the behavioral factors. As the factors came up during the listening, they were written down on the table in Excel. The main idea of the table was to make it easier to

analyze the data as a whole by seeing the bigger picture, as the recordings were factorized to a table form, which made the analytical part of this study much easier.

The analysis based on the primary data is analyzed against the theories in chapters three and four. The main object is to explore, how the analysis goes against the existing theories. Thus, the object is to highlight the most critical factors, and based on that, create a new framework for competitive advantage.



**FIGURE 4: The process of gathering and analyzing data**

#### **5.4 Validity and reliability**

Quality of a study is measured by its reliability and validity. They both are measures for defining the degree of objectivity of a study (Hirsjärvi & Hurme 2001: 185) and how credible it is (Silverman 2001: 222). In qualitative researches, reliability refers to the degree of consistency with which instances are appointed to the same category by different observer or by the same observer on different occasions (Silverman 2001: 225). In other words, it is concerned of getting the same study results and conclusions if the study is being repeated.

The other measure, validity, is the measure of how well suggestions, result and arguments represent a subject. The focus in determining how well does the chosen methods and tools really describe the reality. Validity can be divided into two categories, internal and external. The first one is the measure of the internal logic of interpretations as well as the analysis of the study. External validity, on the other hand, is about extending the interpretations to other subjects, than the ones that have been studied. Thus, it is a measure of generalization (Koskinen et al. 2005: 254).

In order to increase validity, interviewees that worked in a financial firm or who had a very close relative working in financial company, were disqualified from the interviews. Also the empirical findings and data have been handled objectively. There has been no attempt to generalize or influence on the results, and the results have not been falsified and corrupted. The analysis shows both support as well as rejection towards the existing theories. The analyses have been produced with coherent and logical arguments based on both, the theoretical and empirical parts of this study. This study is internally valid, and also externally valid, as generalization is made.

## 6 FACTORS TOWARDS CUSTOMER LOYALTY

This chapter will describe and analyze the gathered research data from the fifty interviews. The focus here is to compare the empirical findings against the theories in chapters three and four as well as point out the similarities and differences. This chapter will define what service factors are the most important for loyalty creation and which factors impacts negatively on customers' retention by weakening the relationship. The reasoning throughout this chapter will be used as the foundation for creating the framework of competitive advantage for banks and insurance companies in the following chapter.

### 6.1 Perceived quality and satisfaction

All the data showed unanimously that perceived quality, which means satisfaction towards the basic element, expected service or product and service (Jones & Sasser 1995) is the foundation element for satisfaction (Yang & Peterson 2004; Sharma & Patterson 2000). All of the 44 subjects out of 50, who would recommend either their insurance company or bank to their close friend, often started their reasoning for satisfaction with perceived quality.

*Interview 23: "Paying bills has always been easy and the Internet bank has always worked excellently" (bank). "*

*Interview 26: "It has worked well. It is easy to approach and requests are handled quickly" (insurance company). "*

Perceived quality is a common factor, despite that the reason for their satisfactory differs in wide range. In other words, this data enforces the previous theories by various researchers (Yang and Peterson 2004, Ball et al. 2006). This finding also highlights the importance of customer's satisfaction, as the interviewees relate it with perceived quality. Just as Sharma and Patterson (2000) stated, satisfaction can be described as post purchase evaluation from the customer's point of view. The collected data expresses that satisfaction seems to be the cornerstone for the relationships between customer and its company.



As satisfaction is the cornerstone, it doesn't mean that it equals loyalty. All of the interviewees, who would recommend their company x, implied to be satisfied towards the perceived quality from their company, still there were also many who stated to be satisfied, but would not recommend their company. In other words, are not as loyal as those who would recommend.

Interview 29: *“My bank and insurance company works well and I have no negative experiences, but I would expect that other firms would also meet my standards. “*

Interview 10: *“I am satisfied with my bank works well and I don't even have to wait for long time to get customer service... ATM fee is too high “*

Even though, these interviewees are satisfied with their companies it seems that they are not loyal. In the first case, the interviewee had expectations towards his companies (Ball et al 2006) and the companies had not performed above it. Expectations towards a vendor, seems to be a relatively important issue in here in many cases, which differs from the observation by Martensen et al. (2000). Though, this varied among the subjects, while some had a stronger expectations and some had almost none.

Still the common factor was that the interviewees had them towards cognitive components and not towards emotional components (Yu & Dean 2001). The second subject was also pleased with his bank, but after narrative talking, the costs issue revealed. With few other similar cases, the data points out that even one negative feeling or one bad service encountering is enough to change the nature of the relationship.

It seems that positive emotions are indeed stronger indicators for loyalty than cognitive factors in satisfaction (Yu & Dean 2001). While the interviewees had neutral feelings and were only satisfied with the core product, they tend not to recommend their companies. Also, if the satisfaction was built on cognitive components (core product) even one negative feeling or bad experience was enough to create the same result. As Jones and Sasser (1995) stated that it isn't enough to

excel in basic elements, but a company must provide an extraordinary element for meeting its customer's preferences.

Positive perceived quality, in other words satisfaction with the core product, seems to be the vital key element for loyalty. It seems to be the essential cornerstone, on which the relationship is built on. The data shows this in many cases, where the subjects have been dissatisfied with their old companies and defected as a result of that. It can also be interpreted that satisfaction by itself is not enough when it is based on cognitive components. If the subject is pleased with his ATM-cards or Internet bank, the switching cost seems to be quite low, as the subjects feelings are close to neutral. Also because of the IT-revolution, the switching costs have gone down and changing vendor has become easier than before. Customers can make new contracts without even walking inside an insurance company, with identifying themselves by Internet bank accounts. Just as Reichheld (2003) and Oliver (1999) argued; it's not enough having averagely satisfied customers for they are not loyal.

In the contrary, when there is a positive emotion involved, the correlation between satisfaction and positive word of mouth (the act of recommendation) becomes much stronger. In majority of the cases the positive feeling, which deepens the relationship, is derived from employees. The data shows that customers, who have positive feelings, also tend to approach the interview questions differently. It was noticed during the interviews that the ones, who had positive consumption experience (Yap et al. 2012) were more open to conversation, and their reasoning was also broader.

## **6.2 The human effect and emotions**

The single, most important factor that deepened the relationships was customer service. With customer service, this study implies on human interaction between a company and a customer. Majority of the interviewees, answered positively on the recommendation question, said that they have some kind of good experience from the customer service, which they could recall during the interview. In majority of the interviews, the core of the reasoning, why they would recommend their company, was taking place in this area. Some examples:

Interview 25: *“I would recommend, because the customer service at the office is good.” (Bank)*

Interview 15: *“Always, when I have been in contact with them at their office, everything has gone smoothly. Employees are professional and they tell me about the other options too.” (Insurance)*

Interview 18: *“Customer service has been nice and they are easy to be reached, even by telephone.” (Bank)*

Interview 34: *“Service at the office is very kind and competent.” (Bank)*

The interaction with the employees varied from customer service by face to face to telephone. Some also appreciated the service that they have received through e-mails, which they linked to employee’s personal skills. There are few examples in the data, where the difference between human contact and non-human contact is clear, for example in interview 38, where the interviewee is satisfied with his bank and its core services, such as Internet bank, but would not recommend it. Instead, he would recommend his insurance company where he has similar experiences with core products. The only difference is that there has been a positive interaction with an employee if the insurance company. This relates that the willingness to recommend is based on the way the individual is treated by frontline employees (Reichheld 2003). This also confirms that intangible assets are the area to focus on (Youndt et al. 1996) because they have a powerful effect on customer loyalty (Reichheld 2003, Schlesinger & Zornitsky 2002).

Interview 28: *“The service level at the office is excellent. I highly value the level of customer service that I get.” (Bank)*

The most important qualities that were appreciated in customer service were *excellence, kindness, honesty, easiness, consulting and speed of completing service tasks*. *Excellence* in customer service was the most used statement, which came up more over half of the times. Interviewees simply acknowledged that the level of service, which they have received, has been good. More precise quality that came up

in eight interviews was the *kindness* of employee's. The correlation between quality and willingness to recommend was a hundred percent. In other words, when interviewee had an experience of kindness, which had impacted enough for him or her to remember it, the company was recommended. Instead, many of those who were satisfied with the general excellence were uncertain towards their action of recommendation. The same phenomenon is around the quality *honesty* and *consulting*. Subjects, who felt that the received service has been honest or that the consulting has been good, by not only telling the positive side of the story, also were always ready to recommend.

The more mechanical qualities such as speed and easiness did not provide so linear evidence, even though, they were also much appreciated, especially in claims on insurance police. This observation puts the human contact under focus. Customers create their relationship with employees, not with the products in service industry (Reichheld 2003, Kish 2000). When customers meet face to face with an employee, it creates a stronger relationship with a company. The employee's personality represents the company, and the data shows that the ones, who have had a positive experience with an employee, are more willing to recommend than the ones, whose experiences comes from indirect contact with the personnel, such as via telephone or email.

This indication gives more stress to salesman, as many times they represent the face of a company. All the interviewees were using Internet bank account as the main way of handling issues related to bank, and most of them were also familiar with similar services, which insurance companies offer. The trend seems to be that the target age, 25 to 30 years old people, uses Internet bank account as the primary method, but the they are not as familiar with insurance companies Internet accounts. Thus they tend to use the customer service more on the insurance side. Nevertheless, majority of the interviewees mentioned using Internet connection or telephone as the main way to contact their companies, therefore there are very few face-to-face situations taking place. The interviewees often contrasted the customer service, as the sales event, such as loan negotiating or insurance sales situation. In these cases the salesmen represent the face of the company and their experiences related to salesman. Few cases:

Interview 11: “Service *has been good in the sales situation and the situation has been trustworthy as the salesman has been honest.*” (Insurance)

Interview 17: “The sales situation was nice, and the salesman was not too repressive and did not try to sell anything unnecessary, which created trust towards the company.” (Bank)

Interview 41: “Salesperson in Tapiola was so professional and honest, that I will also move my other insurances to there as well.” (Insurance)

Another related observation, concerning the interactions, is that a single recent interaction experience with customer service can have a major impact on loyalty, if the experience is positive in nature (Caruana 2002). In few cases, the interviewees had just one positive experience, which surpassed their expectations (Ball et al. 2006). This single positive memory made the difference in their recommendation action. The interviewee (38) had similar experiences from his bank and insurance company. He was satisfied with his bank quality, and also mentioned that the Internet account works nicely. He also said that he was feeling quite neutral towards it, and he was unsure if he would recommend his bank. Instead, he answered positively on behalf of his insurance company;

Interview 38: “Once that I called them to ask something, the employee didn’t know the answer, but after few hours he called back.”

He expressed that he was a bit surprised by the action and was very pleased with the customer service. Interviewee (36) has a similar experience as he had been travelling. The customer service, in which he had called, explained him a faster way of getting his medical fees back, which was not the usual or standard way. Other experiences that he had were quite neutral, and yet he was willing to recommend his company. Both of these cases point out that a single interaction can have a big impact on loyalty, if the service really exceeds the expectations (Ball et al. 2006). This again, gives more focus on the emotional side. Positive feelings, such as happiness and the element of surprise seem to have stronger connection on loyalty, than the cognitive components, which are expected (Yu & Dean 2001).

Customer service, as general, proves to be a key element to customer loyalty. As most of the reasons for perceived quality, were also related to companies' employees. Analyzing the subject deeper, the data shows that, when the origin of the satisfaction is from human contact, the loyalty is greater than. In a sense, the employees are the product, because when one has to use, for example one's insurance, it is the employees who handle with it as they are the frontline operator in financial industry (Duncan & Elliott 2004). Thus the emotional side weights more than in service industry than mechanical components, and it is the quality of services, which leads to loyalty (Caruana 2002).

Interviewee 45 also gave evidence on this phenomenon, as he was willing to recommend his insurances company but hesitated when with bank. He was satisfied on both companies' core products, with the exception that he was very pleased with the customer service on the insurance side.

### **6.3 Personalization & customization**

Customer service was a good indicator for willingness to recommend. Those interviewees, who brought up this, as their reason for satisfaction, usually expressed their willingness to recommend; as customer perceives that his services are more tailored, the satisfaction goes up (Coelho & Henseler 2012). From these same individuals, those who actually had some kind of a relationship with employees, whom they were served by, expressed unanimously their satisfaction, and this was the group who seemed to have the strongest commitment and loyalty. This observation was made by the way they expressed their feelings and experiences, and how they had been recommending their companies in the past (will be covered more precisely in next chapter).

The concept of relationship means in here that they know and are familiar with the employee, who serves their needs. In a sense, the employee is their link to the company, whom they can contact, when a need arises. In few cases, the familiar person was a relative, but in the rest of the cases the relationship was built around the bank/insurance environment, with no other connections. Overall, there were sixteen

interviewees from fifty, who had a personal relationship with their company. All these, were willing to recommend. Few examples:

Interview 4: *“My bank is easy to approach because I come from smaller town, and I know the bank employees”*.

Interview 27: *“We always handle bigger issues with our personal contact, such as loan stuff... We have one guy at the insurance company who handles our business, and the rest of our family’s business”*.

Interview 31: *“The best service aspect in my bank is the personality, I know the employees there. When I call them they handle the issue quickly and I don’t have to call to various different departments... I can also solve problems with one person.”*

Interview 37: *“The relationship with the company is based on the relationship with our personal contact.”* (Insurance)

Even the tone of their voice was more convincing, as they didn’t have to think about the origin of their experiences. They very sure, when it came to recommending and didn’t use words like maybe or perhaps. This indication highlights the importance of *personalization* one of the key factors for loyalty creating (Peppard 2000). This means that insurance companies and banks should concentrate on relationship building and problem-solving among their existing customers (Page et al. 1996). The discovery also agrees with Kish’s (2000) study, where he pointed out that highly personalized services should be provided for key customers. As every company’s resources to provide services are limited, Kish’s approach would be ideal in this case for boosting the loyalty with the customers, who actually bring the positive revenue, *the Pareto law* (Oliver 1999, Reichheld 2003, Kish 2000).

As personalization seems to be a strong indicator for loyalty, the role of employees is questioned again. The interviewee 37 stated that the entire relationship with his insurance company is based on personalization, which means that the employee is an essential asset for the company for remaining the relationship. Employees are the mediators between a company and a customer, and when an employee leaves a

company, the relationship bond is broken (Reichheld 2003). Thus, the data shows that human relationship is important in financial service companies. The satisfaction towards core products, the cognitive components, does not effect on loyalty with same volume, as it lacks the emotional side. When there is no emotional side, it is easier to abandon (Yu & Dean 2001).

The emotional side is still powerful link within loyalty. As services and offerings, that financial firms offer, have gone more online (Peppard 2000), the essence of human contact still remains as the key factor. The importance of personal contact enforces that insurance and bank business is about human relationships, and that the emotions, such as commitment and trust, on the counter party, is in various cases build around the employee (Reichheld 2003), not around the cognitive components. This conclusion goes along and backs up the perfect customer experience theories, where the aim was to create “outstanding” customer experience (Frow & Payne 2007) in every interaction, including the emotional side (Mascarenhas et al. 2006). Therefore, perfect experience can’t be offered without the emotional side, and therefore to gain five out of five from satisfaction, the role of personalization becomes important.

Employee’s job satisfaction and HRM is strongly related with personalization. Even though this study was not able to include these factors within the companies, the data suggests that companies should focus on employee retention (Reichheld 2003), as the data implies that their *relationship with a customer* can be described as an asset for the firm. Also, the leading reasons for perceived quality were employee skill centric. Interviewees appreciated that the service employees are good in their job, as they have the skills to perform the wanted tasks. The skill-base for this comes with time, thus the productivity, knowledge and experience is related to the retention of employees. In this study also suggests that employee retention impacts on customer retention because the evidence indicates that long-term employees can serve customers better than newcomers (Reichheld 2003).

All earlier indications are giving focus on human resource management. HRM wasn’t either studied within the companies, but various studies (Reichheld 2000, Sureshchandar et al. 2002) indicate that HRM is responsible of job satisfaction. So



for, HRM is responsible of the asset *customer relationship*, because satisfied employees are not as easy to lure away, thus the bond between the company and its customer will not be broken.

*Customization* did not come across as strongly, except the service customization (personalization). Some kind of customization was detectable, but only few of them were straightly concerning core products. In two cases out of fifty, the interviewees expressed their satisfaction through health insurance. They acknowledged that other companies can't offer similar insurances, because the trend has gone up and the health insurance premiums costs more nowadays. In both of these cases, the interviewees were willing to recommend their company and were satisfied with their insurance companies. Basically, the origin for their loyalty, in the health insurance cases was the monetary idea, that they have a product, which wins the insurance market trend, measured as in expense. The other reason for commitment was that the same kind of insurance would be denied from other companies, because an illness or trauma has surfaced, which the new company would not cover, thus it would be excluded from a new health insurance contract.

The findings herein suggests that the core products can create loyalty, but only when the product is special of a kind. If a company would strategize to sell health insurances to customer in early ages, this study supports that it could be a way to attach loyalty. When the claims are also handled with satisfaction, a customer will be pleased, and pleased customers tend to centralize their insurances (covered in next chapter).

Other cases of customization were purely related on monetary issues. In eight of the cases, the interviewees expressed their satisfaction on price related benefits. Some were satisfied that they get extra discount form insurances until they turn 28 years, and few had union discounts. The data shows that there was no single individual, which would have been recommending his company, solely on these monetary customization benefits. All of these cases gave more value on perceived quality in general and four of these also mentioned good customer service. It seems that the monetary customization benefits were only adding value on the good relationship, but it wasn't dominating cause for satisfaction.

The case of innovation and differentiation within the area of information technology and core products did not rise (Payne & Frow 2005, Peppard 2000). Almost all the interviewees did comment their satisfaction towards their financial services through Internet, but they took it as a granted. It appears that the customization in financial service industry is not as advanced as for example in Norway (Union Bank of Norway), where the customers get service by their importance level. It indicates that the bank has acknowledged that all the customer should not be treated the same (Bendapudi & Berry 1997). In Finland this kind of action would be harder to accomplish as some of companies are owned by customers and not stakeholders (mutual company), thus the board of those companies would not allow that customers would be treated differently (Markus Seppänen, Business director of Lähi-Tapiola).

The competitive advantage from this section is based on personalization and more precisely, personalization by human relationships. Also the fact, that competitive advantage cannot be based on IT innovations for they are easy to copy (Grönroos 1996, Porter 1996) enforces the role of individual employees as the source, and the suggestion that personalization seems to be most effective, when it is related to human relationships and emotions.

#### **6.4 Communication**

A new element that came up in the interviews was the element of communication. In here communications refers to an action, where a company contacts their customer frequently. This is basically one of the tasks, which customer service personnel perform, but because it clearly came up as a separate factor, it is being introduced as an element of its own. Nine of the cases reasoned this as one of the reasons, why they are satisfied and why they could recommend their company.

Interview 41: *“Communication is good in my bank. They regularly call me, which is nice.”*

Interview 9: *“They gladly call me at times.”* (Bank)

Interview 34: *“They actively call me and I have a close relationship.”* (Bank)

Interview 40: *“My insurance company calls spontaneously.”*

The situation with communication was same then with personalization; all of these nice interviewees were willing to recommend their company, with no maybes. The subjects seemed to appreciate this kind of action from their companies. This observation is in a line with customer relationship management theories, where the fundamental idea in a holistic view is to create relationships with customer on factors, such as quality and dialogue (Nguyen & Mutum 2012). As long as it has a positive effect on customer's comprehension (Payne & Frow 2005). By contacting customers regularly, a company can get knowledge of their customers' needs, motivations and behavior (Gebert et al. 2003, Toor 2009).

Couple of the interviewees point out that it is even more than getting knowledge out of them. Even though, they acknowledge that their relationship with their bank is not the same than it used to be decades ago, when it was more personal business and not number on computers (Peppard 2000), they still expressed that it creates a nice feeling. The feeling indicated that the company actually might care about them as a customer. One interviewee even admits that it feels nice when they call, even just to say hi and checkup if there are any issues bothering (interviewee 40).

This means that, when a financial company calls his customer, the bond between them gets stronger. The customer feels that he receives good service, and imagines that he is more, than just a number in a computer; the customer satisfaction goes up. Various interviewees give evidence on existing theories (Gebert et al. 2003) that contacting customers regularly does indeed provide competitive advantage, as the relationship improves. The interviewees also reveal that it's not only the benefit of more accurate knowledge, which the company gets (Gebert et al. 2003). There is also an emotional benefit, the positive feeling that the customer experiences. Thus again, the emotional side of the relationship is given weight on. What the customer experiences, is the most important issue in long-term relationships (Frow & Payne 2007, Meyer & Schwager 2007).

Interview 42: *“When they keep regularly keep in touch; the switching cost goes up when a competing firm calls for an insurance sales meeting”*.

Contacting customers frequently is one way to improve the relationship, and should be used as part of CRM of key customers. The data also shows that young customers don't visit offices too often, because they are used to handle issues via Internet. If the human contact is otherwise diminishing, contacting customers becomes even more essential. Also it seems that human contact is much better source for creating positive emotions than the basic element, the expected product, so the contacting should be done by a person and not by e-mail spam.

### **6.5 Effect of experience**

Lots of studies during the decades have been done on the impact of complaint management, and it is recognized as one of the most important service elements (Zeithaml et al. 1996, Johnston 2004, Yap et al. 2012). The main reason for its importance is explained how it creates satisfaction, trust and loyalty, by letting a customer to test his company. If the company prevails in this test, the outcome will be a stronger relationship (Johnston 2004). In the center of this phenomenon seems to be the assurance, which a customer gets by testing the company. During that event, the customer will find out, whether the company claims its promises or not. The issue of complaint management did not rise in this study, but similarly, the issue of testing the company did.

The findings concern mostly only insurance companies, where there were cases in this area in 27 interviews. It appeared that the interviewees had much more less experiences from insurance companies than banks. Reason for this was that they said to be more familiar with their banks as they use their services in daily basis (Internet account). This means that they have a basic idea of their bank and its core products and services. Meanwhile, many interviewees stated that they don't have enough experiences from their insurance company, as their experiences were limited to paying the insurance bills. In other words, these individuals had not tested the company (Johnston 2004).

The data suggests that testing the insurance company is one of the key factors to loyalty. In total, there were thirteen interviewees who stated that they have no experience of their insurance companies' compensation policy. In other words, they had never claimed compensation from their insurance policy. Not a single person of these thirteen was willing to recommend their insurance company. They simply expressed that they felt neutral towards their company so they neither had any bad experiences. Two of the interviewees were satisfied to their perceived quality as overall, but still didn't feel too strongly about recommending their company, as they admitted that they have no experiences from their insurance policy. Only a single interviewee had a positive memory from customer service, but still was not willing to recommend.

With these thirteen interviewees, it really came down to the factor of experience. *Interviewee 41* expressed that he was going to take his insurances to another company because the salesperson was so friendly and honest. He had no experiences from his current companies' policies, as he had never claimed in. He also said that he can pay some of his insurance fees with bonuses from his bank, which is the same company. The interviewee acknowledged that he would lose the bonuses, as he will change his insurance company. The interviewee was willing to sacrifice the monetary benefit over trust, because lacked the experience from his current company. *Interviewee 11* said he was satisfied with his insurance company, for that he had received good service during sales negotiating, but still wasn't sure if to recommend, as he also lacked the experience his insurance policy.

On the other hand, those interviewees who had a positive experience from this same area were firmly willing to recommend, in total 15 interviewees. Only one of the fifteen added the "maybe" flavor in it, but the rest were more convinced.

Interview 43: *"My health insurance has worked very well."*

Interview 33: *"The home insurance worked well and quickly when my bicycle was stolen"*.

Interview 24: *"All the claims on my policies have worked easily and fast."*

The phenomenon here looks to be the same than in complaint management. All the interviewees who have actually tested their insurances, and how well do the policies cover, can be regarded as loyal customers. Most of them didn't have more than just a single experience, but that seems to be enough. This finding enforces the earlier studies (Bolton 1998, Page et al. 1996), where the researchers said that companies should give focus on new customers whom have no experiences yet. Thus, companies should give much focus on customers, who are claiming insurance policies the first time.

As for the event of insurance policy claim, the interviewees mainly appreciated the easiness of the process (Peppard 2000) as well as the speed of it (Stein & Bowen 2003). So, insurance companies should try to please their customer with extra care, when a first timer claims from his/hers policy. Also the process should be easy for the customer to handle with excellent speed of resolution. When this is done correctly, the customer has tested the system and the customer's satisfaction and trust will go up which is seen on loyalty (Johnston 2004, Yap et al. 2012).

Only five out of these fifteen had a high personalization level (own contact person), which also affects that they are willing to recommend. But the rest did not have this factor but still the result from them is linear, good experience equals action of recommendation. In other words, they reasoned their willingness to recommend because of the positive experience. In majority of these cases, the positive human factor effect was also in the picture. Four of these ten cases were constructed purely on the policy claiming experience, with no positive human interaction memories.

The evidence from the empirical part of this study suggests that experience is the most important non-human factor for customer loyalty in insurance industry. When a relationship lacks the human factor, the positive experience raises a customer's satisfaction on a level that is high enough for an action of positive word-of-mouth. In various cases, when a customer had a positive perceived value and was satisfied with the core product, the action for positive word-of-mouth didn't take place. Testing the system is therefore important for customer loyalty.

This phenomenon was not happening with banks. Only a single interviewee raised this issue by mentioning that she has no experiences from her bank so she would not recommend it. This case is interesting, because she had been a customer of this bank since childhood. The interviewee said that she had never done any actual business with her bank, like loan negotiating, so the experiences only refers to account management via Internet (non-human experiences). In other words, she didn't feel comfortable on recommending because she had no relationship between the bank's employees (Reichheld 2003). Again, this raises the human factor as a key element for loyalty.

As positive experience makes a customer more loyal, it might have it downside; customer might defect before he/she gets the experience. A person can be a customer of an insurance company for long period of time but has never claimed on his policy. If the customer doesn't have any other extraordinary experiences (Yep et al. 2012) like the interviewee before, he is easy target to lure. Thus, companies can't trust too much on their insurance compensating systems to keep their customer loyal because they might be lured away before the company gets the chance to prove itself. A stronger relationship must be built before it.

The data also suggest that customers trust generally more on their banks than insurance companies. The fact that their satisfaction goes up always after that have experiences a positive experience from their insurance policy. Even thou the insurances are sold to them with the impression that the insurances would cover the damages, so one could imagine that their expectations meet the service level they receive and that it would not raise their satisfaction, but still the data shows differently. In other words, the trust towards the core product at the insurance side is weaker than at the banking side, because in there, the customers' expectations meet the core product.

## **6.6 The element of comparing**

The studies show that expectations have an impact on customer loyalty (Ball et al. 2006). This study found a factor that is closely related to this. In various cases, the interviewees contrasted and judged their companies against other companies. This

phenomenon had two different forms: inexperienced and experience based comparing.

The first form appeared as seven of the interviewees clarified their satisfaction by comparing their insurance company or bank with other companies, from which they had no personal experience. This means that they were inexperienced themselves and the information was based on their friends' stories or public media. In six of these cases the received information had shape a negative image from the competing firms. In these cases, the interviewees contrasted their company in a positive way against rival companies. Few examples:

Interview 32: *"I haven't had any problems in my bank, like there has been in other banks."*

Interview 43: *"I haven't had any problems in my insurance policy like others have in their insurance companies."*

Interview 19: *"I am satisfied because everything works well in my bank. Not like in other banks where some of my friend are, where they have had problems with their cards and Internet account."*

It seems that, because of this image that they shared, they were willing to recommend. The idea, that their company is better than others appeared to be their leading factor for their satisfaction, as they didn't have personalized relationship or even in few cases, any good experiences from customer service. These cases give focus on different kind of approach to competitive advantage because its source is not a company itself as much as it is the surrounding information. The negative information, word-of-mouth or news, from competing companies enforces the competitive edge of another. This evidence highlights the role of negative word-of-mouth, instead of positive word-of-mouth, which is more widely discussed (Keller & Fay 2012; Reichheld 2003).

The impact of negative word-of-mouth is also very visible in the last one of those seven cases, in which the interviewee had heard negative information about his



insurance company from his friends. The interviewee said that he has only few experiences from his insurance policy, which have been good. After this the interviewee said that he feels unsure of his company because few of his friends, who are customer of the same insurance company, have expressed their negative experienced with their policies. This seemed like the reason, why the subject was not willing to recommend. While it is studied that negative word-of-mouth is a strong indicator for negative purchasing behavior and loyalty on general goods (Samson 2006), it also appears that it also effects on financial products, where the continuous agreements are purchased and renewed every year.

*Experience based* evaluating took place with seven subjects, who had defected their old companies. These subjects compared their old companies with their new companies and stated that the problem, which had been the reason for defecting, doesn't exist in the new company. Basically they were comparing the service level in those two companies and acknowledged that the new company is superior. This leads to the fact that the current service provider has gained a competitive edge. This edge is based on the bad service, which the customer had received from the old company.

This means that a company can achieve this type of edge in the first meters, without having to perform in a superior way. *Interviewee 11* gives a good example of this kind of event. The interviewee defected his bank because there had been a mistake with his account's balance. This false action impacted on his trust so he changed bank. Now, one of his reasons to recommend the new company is that there have been no similar mistakes with his bank account.

These seven cases give a new kind of approach to competitive edge, where a company can benefit from other company's mistake. The benefit is not only the benefit of acquiring more customers but also the benefit of their changed expectations. As the expectations go lower from a bad experience, a customer tends to be more satisfied by getting the average service level from a new vendor. In a customer's eye, the average service level, which the new company delivers in that specific area, is superior.

The downfall of this approach is the complexity. The seven representative cases in this study pointed out that the source of dissatisfaction can vary. Thus, it cannot be generalized on average. This benefit also can't be used on current customers, who have no earlier experiences from other companies. This approach could be used on new customers, who bring bad experiences in to the relationship. These experiences should also be recorded down in the customer's profile. Without that process, the benefit would be useless.

## 6.7 Price

Price has been argued of being not a factor of sustainable competitive advantage (Barney 1991, Porter 2008) because customers who aim for continues discounts are not loyal (Reichheld 1993). In other words, theories suggest that companies should not target customers with price, because their satisfaction and loyalty is not strong enough and they will defect for monetary reasons. The issue of price came up in sixteen interviews.

The data shows that from these sixteen interviewees, in which they mentioned price, as one of the key elements of their satisfaction, ten interviewees would recommend their company. From these ten persons, only three was willing to recommend their company purely for price and two of these mentioned that the price is related to their young age or trade union. The other seven interviewees had also other factors included than just a price, such as personal contact or satisfaction towards customer service, which also impact on their satisfaction. This indicates that the interviewees, who had not experienced satisfaction towards other areas than price, would not recommend their company. In other words, these individuals are not as loyal customer, as they are not satisfied enough.

Interview 39: *"I could recommend my insurance company, at least the prices"*.

If all the other factors are excluded, only interviewee 39 was willing to recommend his company, but only the prices. Others, who had no other positive things to say about their companies, except price, were not willing to recommend. It appears that not a single person was loyal, if they didn't have any other experiences and the

relationship was purely based on price. In few other cases, the interviewees brought up the factor price in both, bank and insurance company. For example, *interviewee 42* admitted that she and her husband chose their bank for its lowest marginal in mortgage, and the insurance company was also picked by the lowest package price. The subjects also told to be pleased on her bank's kind customer service (human contact) but had no similar experiences from the insurance company. As a result, she was willing to recommend her bank, but not her insurance provider.

The data in this study confirms the older studies (Reichheld 1993, Peppard 2000) that price alone, won't make loyal customers. Compared to other factors so far, the element of price has been the one with the least effect on loyalty. Price can be used as a decoy, and various cases give evidence that reasonable price, from a customer perspective, may enforce the relationship, as the customer feels that he is not being overpriced. In a situation like this, it may add trust towards the vendor. Overall, the data gives reasonable evidence that sales should not be constructed based on price alone. If a customer is lured with price, then a company should put effort in creating a stronger relationship with the customer.

## **6.8 Trust**

This subject is well studied, as said to be one of the key elements for customer loyalty (Martin et al. 1994; Ball et al. 2006). Some studies even claim that trust has even bigger role than satisfaction (Ranaweera & Prabhu 2003). The subject, trust, came up repeatedly during the interviews.

Generally, the analysis shows that those customers, who were willing to recommend their company, bank or insurance company, also gave a positive answer towards the question of trust. This leads to the fact that recommending behavior requires trust and also that trust is an important factor of loyalty within financial industry. The price factor doesn't seem to effect on trust. Various interviewees advertised cheap insurance prices, but at the same time they trusted the company. This indicates that discounted price won't effect on customer's trust negatively. Correspondingly, the ones who were dissatisfied because of a high price did also still trust their company.

Also because most of the customers, who were willing to recommend, reasoned their satisfaction with good experiences from customer service or personalization, this also suggests that human contact is an important factor for trust creation. All of the ones, who had a personal contact (high personalization) in a company, admitted trusting the company. Also majority of those interviewees who did have a personal service employee, and did trust their companies, reasoned their satisfaction with other human contact related factors, such as good customer service. As customer service employees are very much responsible of satisfaction, it can be said that they also impact on customer's trust in a similar way, because it looks like satisfaction and trust walks hand in hand. Altogether, the results show that those factors that effects positively on loyalty, also effects positively on trust. Few of the interviewees recognized that they trust Finnish banks over others. They think that bank is more trustworthy when it is Finnish and not from other European countries.

On the other hand, factors that weakens loyalty, also has the same effect on trust. Various examples show that trust is easily lost. Only a minor service disappointment can lead to distrust. Few examples of the reasons:

Interview 20: “The *salesman was too aggressive.*” (Insurance)

Interview 48: “The *sales event was too fraught, and they tried to sell me wrong kind of services.*” (Bank)

Interview 13: “The *old bank started to charge some random extra fees.*”

This again gives value on sales events. If s salesperson tries to push too hard, or a customer gets an impression that the company tries to sell for sales, and from the perspective of the customer, the trust is easily lost. Various interviewees also admitted that they don't trust their old companies, in which they had defected from because of some disappointment, which made them lost their trust towards their companies. Like mentioned before, in many cases the price was not the reason why some customers had defected as it was the loss of trust. So, the ones with bad experiences usually didn't also trust their companies anymore. Essentially is appears

that trust is very closely related to loyalty. It is very easily lost, as dissatisfaction is easily gained.

An important discovery is that there are differences between banking and insurance business within the behavior of customer trust. It seems that trust towards banks is much more given for granted, than towards insurance companies. Many interviewees, who were not willing to recommend their bank or were not too satisfied with them, still acknowledged their trust. It appears that customers' trust towards their banks is given for granted, until otherwise proved. When there is an event of dissatisfaction, the trust is lost. Banks do not have to earn it first, in the beginning of a relationship. For insurance companies, the phenomenon is slightly different. Many interviewees said to be averagely satisfied with their insurance companies said that they do not trust their insurance company. The same persons said that they really no experiences from their insurance policies. The ones who were willing to recommend, in other words loyal, did trust their insurance companies.

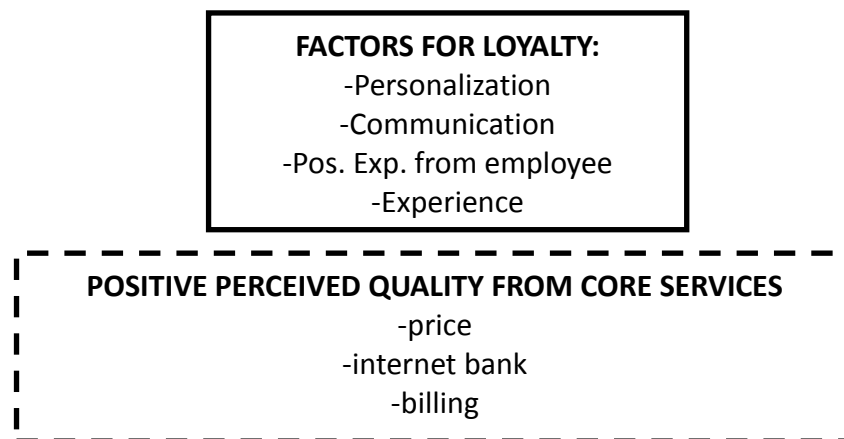
Thus, the trust towards insurance companies is not always for granted as it is for banks. The effect of *experience* kicks in again. If an interviewee had a positive experience for damage compensating, he tends to trust his company. If the relationship has been satisfied otherwise but the company's compensating system has not been tested, a customer might not trust his company. The phenomenon is again same than in complaint management (Johnston 2004). This indicates that an insurance company has to earn customer's trust, while banks get it for granted.

It looks like there is more distrust in insurance business, as customers can be more suspicious. Countless interviewees stated that the insurance contracts are hard to understand and the conditional clauses are lacking good examples. This might be one of the reasons, which makes the customers more cautious on the compensating systems within insurance companies.

The following figure will present how loyalty is created. The lower box shows the present the cognitive component (core aspects), which is essential part of keeping the customer. In other words, the perceived quality on core services must be acceptable, and it is the foundation for developing and taking the relationship further, but it is a

weak source for loyalty as this study has shown. For example price, it is important the price is fair, but that alone won't create a loyal relationship, only averagely satisfied customers.

True loyalty is created within the upper box, where a customer builds its trust and relationship with an employee. This area is the one that companies should focus on because usually their core services are functioning well. The factors in upper box have an impact on customer's emotions, such as trust, and it takes the relationship beyond averagely satisfied. Interviewees who had factors from upper box tended of being more than averagely satisfied and interviewees, whose relationship was based purely on the quality of core services, were not loyal.



**FIGURE 5: The difference between averagely satisfied and loyal customers**

## **6.9 Factors for defecting**

As studies points out, the main reasons why companies are losing their customers are: core service failures, bad service encounters, price, response to failed service and inconvenience (Keaveney 1995). Recent studies (Manrai & Manrai 2007) also verified the importance of service encounters, as well as the positive effect of a friendly atmosphere. Also the reputation, advertising and price has confirmed to impact on switching behavior (Clemes et al. 2010). This section will present, which are the drivers for defection in this study.

Eighteen interviewees expressed their dissatisfaction towards their companies. The most popular source of negativity was, related to service encounters. Eight of these cases explained their dissatisfaction coming from employee related encounters. Few examples:

Interview 5: “*They employee didn’t do what he promised me to do. He said that he will call me back but never did.*” (Insurance)

Interview 48: “*The salesman sold us wrong kind of insurances and was too aggressive.*” (Insurance)

Interview 3: “*The level of service had been bad at their office, and things just hasn’t gone like they should.*” (Bank)

The data shows that in many cases, the employees had broken their promise, or otherwise not acted on the customers’ best interest. The mistake, which the employees have done, can be very small, like not remembering to call back, but it appears that it can really effect on the trust and satisfactory factor. These results also put focus on sales events, as three subjects confirmed that the event was unpleasant and not handled professionally. From these six cases, only a single interviewee was willing to recommend his company and the rest would not and had defected those companies. The one, who was willing, had a various personal contacts in the company. Otherwise the data shows that a negative experience from a staff has a very negative impact on customer satisfaction and loyalty (Keaveney 1995; Manrai & Manrai 2007).

The second and third most effective elements of dissatisfaction were *core product failures* and *price*. The failures related to the product were mostly related to inconveniences (Manrai & Manrai 2007), such as complex Internet account or difficulties to claim insurance policy because of the complex questionnaire forms. The element of price came up various times, thou it seems that the issue wasn’t that much monetary based than it was trust based. Few cases:

Interview 40: *“The price that I have to pay from customer service goes up all the time, for example paying the bills.”*

Interview 13: *“There were more and more unclear fees popping up in my old bank.”*

*Price* doesn't seem to be a major element for satisfaction. Nobody expressed that their insurances are too expensive, and only one interviewee explained that some specific bank fee is too expensive, which actually is the credit card company's fee and not the bank's. The interviewee 13, who changed his bank, said that the reason why he changed was the lack of trust. This similarly indicates that the fees were not the reason as the uncertainty and trust were. Thus, the element of price has not been the reason, why these customers have defected. In two cases, the price was the reason for opening another account, investing account, for stocks, while the exchange in their own bank was more expensive. These subjects appeared to be well informed in that area by their own interest on that area, so they knew the differences in exchange fees and chose the cheapest provider.

The earlier point out that those customers, who are price informed, will choose the cheapest solution, when the service is purely Internet based, and there is no contact for employees. In other words, when there are no emotions involved and a customer is price informed, the customer will do the rational decision when the switching costs are not too high (Clemes et al. 2010). When the relationship is based on personnel level, customers tend to take a leap of faith by trusting the company and its offerings.

The reputation of company came also up as a factor for dissatisfaction as interviewee 46 shared his reasons for dissatisfaction. The subject had been exposed to negative word-of-mouth by his friends, so an image had been formed, whereas the interviewee thinks that his insurance company will not compensate by the policy.

The impact of reputation varies by the geographic location (Clemes et al. 2010). Whereas in Finland where one could think that the banking system operates in one of the world's most stable environments, the element of reputation doesn't carry that much value. It appears that it is based on positive or negative word-of-mouth, and not on some popular phenomenon.



The factors atmosphere (negative) and advertising did not come through. This study suggests that the main reasons for defecting are bad service encounters and inconveniences in the core services (Keaveney 1995; Manrai & Manrai 2007; Clemes et al. 2010). This enforces the importance of employees of creating the positive relationship with a customer, which involves customers' feelings (Yap et al. 2012). As employees create the bond, which can be contrasted to loyalty, they also are responsible for customer defection by delivering "bad" service.

The price factor came up several times, but it seemed like these interviewees did not have developed a personal relationship and they were not familiar with their services. The lack of trust and uncertainty towards the vendor played a bigger role, than the actual price. Those who reasoned with price did not have a personal relationship with their company. Those who had something bad to say about their company and had a personal contact (familiar employee) would still recommend their company. Personalization is the only factor that can handle the pressure of customers' bad experience, and still make them loyal.

### **6.10 The model of competitive advantage**

As a result of this chapter, this section will highlight the competitive field and present a framework for a competitive edge, based on the empirical research of this study. The issue of the importance of extraordinary element (Jones & Sasser 1995; Yep et al. 2012), which in majority of the cases, seems to be provided through employees (Reichheld 2003). The emotional side must be involved to gain loyal customers.

As the different factors that effects on customer loyalty are being studied, the findings in this study indicates, that the emotional side of a customer should be focused on. The founding element of a customer relationship is the general satisfaction towards the company, the perceived quality (Ball et al. 2006). Without a positive perceived quality, the relationship does not exist.

The data indicates still that perceived quality is not enough for making customers the source of competitive advantage, ten out of ten loyal. Many of the interviewees were

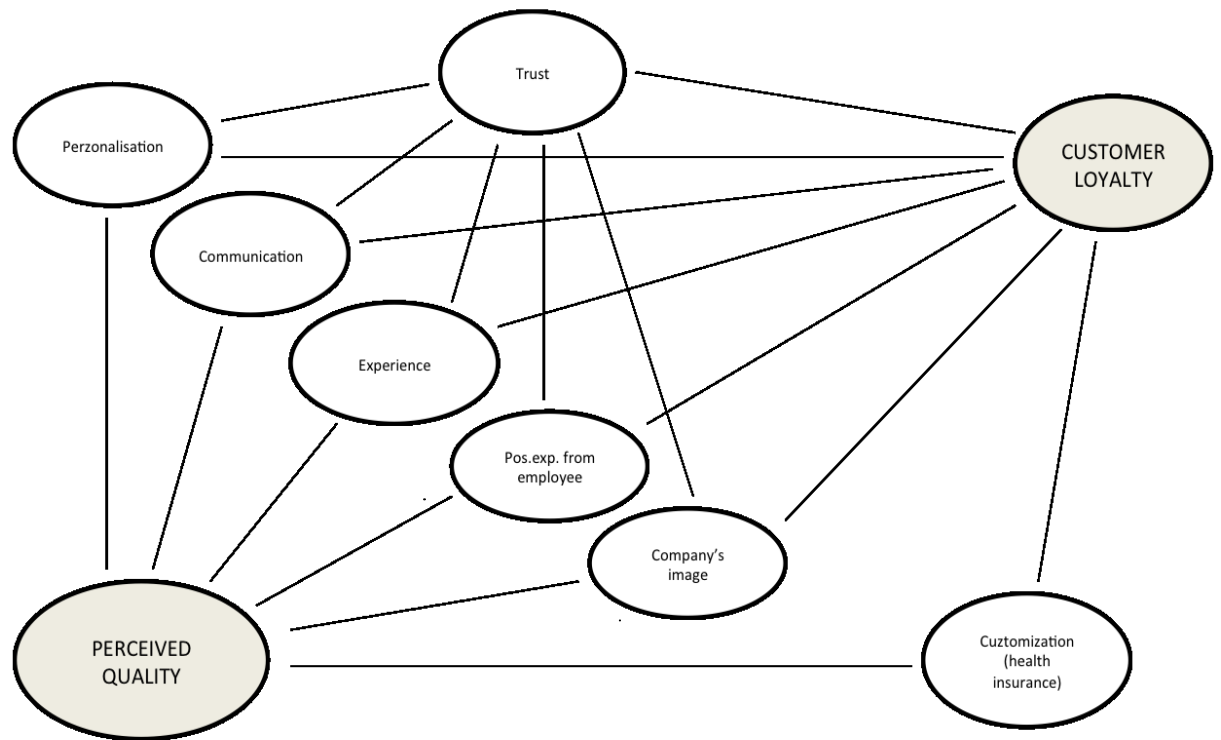
generally satisfied, but their recommending was not beneficial for their companies. To develop the relationship into a state, in which a customer is truly loyal, the emotional components must be involved (Yu & Dean 2001).

In majority of the cases, the customer loyalty was firmly built around human contact. Interviewees, who had good experience from employees, tend to be more satisfied and the strategies should be constructed around it, not around price (Frow & Payne 2007). As this study points out, factors such as *personalization* and excellent *customer service* in general are the key areas for loyalty creation. Also *communication* was highly appreciated, and it seems that this is also a way for a company to add value to a customer relationship; because the customers will get the feeling that the company actually cares about their business.

The importance of *experience* also was also visible. The phenomenon is here was similar with complaint management (Johnston 2004). As customers have tested their insurance companies, their satisfaction goes up as well as their trust, which makes them more loyal. This element was very strong on the insurance side, but did not come across on the banking side.

A new element was also discovered, the element of *comparing*. This phenomenon came across in two forms, experience and inexperience based. The fact that a customer has had some bad experiences in the past with another company, gives advantage for the new company, as the customer benchmarks the new company with the old one.

The following framework summarizes this chapter, as it shows the key factors for creating loyal customers. Perceived quality on core services is the starting point for a relationship, which then can be enhanced with the following factors. The framework also shows the importance of trust, as it came clearly through that it is related with the factors. The only loyalty factor that was not linked to it was customization, which was discovered within health insurances.



**FIGURE 6: The framework for customer loyalty within banks and insurance companies**

## 7 CUSTOMER BEHAVIOUR

This chapter will analyze, how the factors in the previous effect on customer behavior. The data herein is also conducted from the interview, as it included shadow questions after the factors in the previous chapter were discovered. The shadow questions were derived from the theoretical chapter three and four and their aim are to study, how the previous factors impact on customer behavior. This behavioral analyze will involve areas: *centralized behavior, duration of relationship, active shopping, trust, word-of-mouth behavior in past and reason for choosing the current company.*

### 7.1 Company choosing

All the interviewees were asked in the end, what was the reason for their company choosing. The idea of this was the figure out, what are the main sources for this. The most highly ranked reason was positive word-of-mouth. Over half of the interviewees said that their parents have picked their banks, which means that they have been customers of the same bank for their whole life. Five of the subjects had chosen their banks with an interest to cut expenses, so the reason was monetary. The role of advertising and marketing was very slim. Only two subjects said that they had picked their bank because of their good marketing. Similarly, there were only three cases, where the relationship was a result of a bank's sales.

<b>Reason for choosing:</b>	<b>Bank</b>	<b>Insurance</b>
Parents	30	13
Price	5	8
Company sales	4	5
Recommendation	2	11

**TABLE 3: Reasons for choosing a company**

As for insurance companies, the result was very different. The effect parent can still been seen dominating as the key reason for relationships. The effect of word-of-mouth is much higher, and the reason price has also gone up. This indicates that people in age of 25 to 30 have been more active in the insurance field. As they are adults and they have to decide themselves, which company to choose, recommending from friends and parents appears to be the leading factor for company choosing. The stats also suggest that insurance companies have more aggressive selling than banks.

The interviews point out that customer's give more value on price, when the expenses go up, such as a need of more insurances or taking a mortgage. This behavior was seen in both industries. From the five *price* cases on the banking side, three of them were involved with a mortgage. They selected the bank, which gave them cheapest deal. The received benefit can be hundreds of euros for a customer, so naturally young person becomes more attractive to it. On the insurance side, this phenomenon can be seen in the rise of the factor price in general. When a need for insurance arises, it means more expenses from one's wallet, so the person becomes more interested in an option of saving money.

In other words, when the expenses go up, the factor price becomes more important. The reason, why there is such a difference between the industries might be the fact that the interviewees were students, majority living in a rent apartment, which means that they don't have a mortgage yet. This means that they don't pay any significant fees for their bank. Instead, majority of them had insurances, such as home, health or car insurance, so the expenses existed already.

## **7.2 Duration and centralizing**

Most of the interviewees had been a lifetime customers in their bank, as the previous table shows. Those who had changed their company had still been customers for many years, from 2 to 10 years. In general it seems that the interviewees are loyal customers measured in duration. On the insurance side, majority of the customer had been in a relationship with their insurance company from 2 to 5 years. The average duration seems to be much shorter on the insurance side.

This result also indicates the same phenomenon that was introduced in the last section. As the costs have gone up, customers have become more active on the insurance side. It is also seen at the insurance side that customers how only appreciate price are not as loyal. Majority from the subjects, who chose their company purely on price, had duration close to 2 years. Some of these subjects admitted that they go through the price rally once in two years. In general, the shortest relationships were represented with the interviewees, who were loyal to price (Reichheld 1993).

The interviews suggest that customer whose expenses are lower, are more loyal than customer with higher expenses. Lifetime relationships many times ended, when an interviewee had to take mortgage, or add insurances. By this change, their expenses went higher and they became more price-sensitive. When the early insurance expense is low, or the banking fees are insignificant, many interviewees stayed loyal. The defection happened, when they encountered the need for more expensive “service package” or a service failure. This kind of action can also explain the earlier study in retail banking customer (Caruana 2002), where 25-29 years old customer had a loyalty of 57% and 30-34 years old much higher, 73, 9%. Many interviewees (25-30 years) had defected their bank when it was time to take mortgage and it seems that that age is a generally popular age for that.

The data also presents that those customers, who choose by price, tend to perform the price rally more often. Majority of the interviewees did not care to compare their insurances or bank services against other companies offers, as their relationships had lasted from 5 years to lifetime, but those who admitted of regularly doing this were the same customer, who were loyal to price. In other words, many of those who did not recommend their company were price hunters.

As for *centralizing behavior*, the data shows presents that young people do centralize their insurances and bank services within the same companies. Majority centralized their everyday banking actions and insurances. Those eleven interviewees, who didn't centralize their operations, *nine of them* were not willing to recommend their company. It is obvious in this study, that satisfied and loyal customer devote a larger share of their wallets and are more profitable customers (Reichheld 2003). For

example, those subjects who were satisfied, and had a personalized relationship, centralized their operations. As the interviewee 41 stated, he will move some of his insurances to another company, because the service that he received was good of quality. Unsatisfied customers are much easier to lure than satisfied.

Other reason in addition to satisfaction was the convenience. Two subjects said that the reason, why they also picked their bank or insurance company, was the convenience. “It is easier to handle them when it is the same company” (Interviewee 37). Thus, the convenience is also a reason for company choosing, though in this study it did not come up strong.

In a few from those nine cases, the investments were handled with other banks. The reason for this, like mentioned before, was the fees in stock exchange. In few occasions, interviewees also said that their banks should improve their offerings in this area. This indicates that investment offerings might be a source of dissatisfaction.

### **7.3 Recommending behavior**

At the end of every interview, the subjects were asked whether they had actually recommended their companies (positive word-of-mouth) or made negative comments about it. This same approach was used in earlier study (Samson 2006) to discover, how word-of-mouth correlates with companies' growth. The focus in this study is to understand who word-of-mouth correlates with all the previous factors.

The data shows very strong bond between the willingness to recommend and the recommending behavior in past. Those subjects, who were willing to recommend their company, had recommended the company in the past. This again shows that this group is loyal in nature, as they have put positive word-of-mouth in motion (Reichheld 2003). The results, concerning this area, are very much as the theories have suggested; satisfied customers say positive things about their company.

The empirical findings also suggest that there are differences in this area. Even though various customers stated their willingness to recommend, they had not done it in the

past. Many of those customers, who were satisfied with their company based on the core product, had not recommended their company in past. Instead, subjects who expressed their satisfaction towards company employees and had a contact person had recommended in past. It also seems that those interviewees, who had an experience of a company's services, which exceeded their expectations, had also recommended in past.

These findings support the theories of customer's perfect experience and customer emotions. Those interviewees, who had experiences in the emotional side, had been more active in their positive word-of-mouth behavior (Yap et al. 2012). For example, customers who had positive experiences from customer service employees or insurance policies, tend to recommend their companies.

Majority of the interviewees that were not willing to recommend had not recommended in past. The results were pretty much linear in this phenomenon. Also those subjects, who were not firm in their first answer and added words like "perhaps would recommend" or "maybe ..." had not been too active to do this in past, which means that they don't count as loyal customers, when averagely satisfied is not enough (Reichheld 2003; Bowen & Chen 2001). This indicates that when there is no extraordinary element (Yu & Dean 2001) involved, the satisfaction towards a company is not high enough to evoke for positive word-of-mouth.

As for negative word-of-mouth, there is a very strong relationship with those seventeen interviewees, who stated their reasons for unsatisfactory. Eight of those subjects admitted of spreading negative comments from their companies in past, in which they had experienced bad experiences. This gives evidence on earlier theories in chapter four that unpleasant service experiences lead to unwanted customer behavior, such as negative word-of-mouth and defecting (Zeithaml et al. 1996).

Interesting in this phenomenon is that the reason for negative word-of-mouth can be small. Many of the interviewees, who had done this action, had felt only small service errors.



Interview 40: *“The fees are rising all the time.”*

Interview 28: *“The customer service in the old bank was unpleasant.”*

Interview 20: *“The insurance salesman was too aggressive.”*

In other words, there had not been any major service errors. It appears that as the competition has gone tougher within financial industry, young customers acknowledged this fact. The bargaining power has gone to young customer as insurance companies and banks are the ones, who are “begging” for their business (Peppard 2000). When young customers experience slight service errors, they might not tolerate it, and are much more likely to defect. This means that companies should understand the effect of small failures. Especially when the relationship lacks the factors that make the bond stronger, such as personalization, it becomes more critical to avoid those errors.

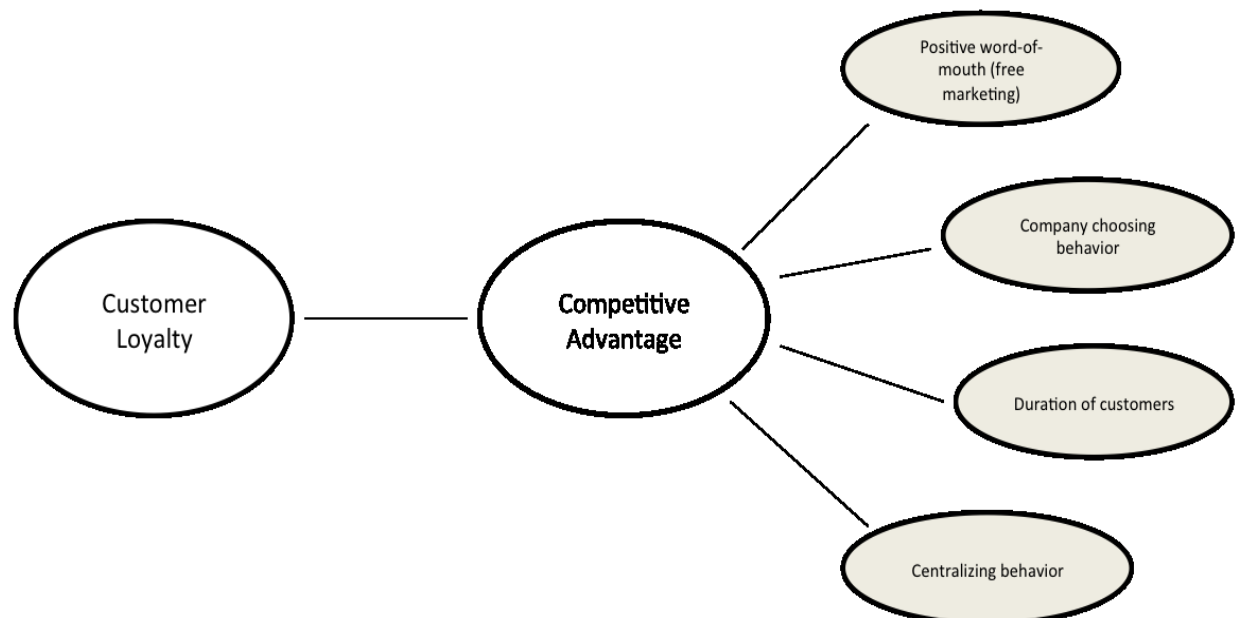
This study did not find evidence on behalf of complaint management. It is basically lacked in here. As various studies (Johnston 2003; Ball et al. 2006) clarify, complaint management is important in creating loyalty after service failure, and it should be a cornerstone of a company’s strategies (Johnston & Mehra 2002). The problem of complaint management in here seems to be that, if a company does not acknowledge the dissatisfaction it has created, it is impossible to manage. In many of the cases, the interviewees did not bother to inform their companies of their failures. So the companies never got the chance to fix the relationship with complaint management strategies. Also as mentioned before, young people are easy to defect based on minor service error as their relationship is based on core products. So when a complication arises, it might be already too late for complaint management, because the bad experience has already taken place.

This study enforces the earlier studies, and expands them on a new customer segment by agreeing with the previous studies. Positive word-of-mouth is a follower of good service experiences (Reichheld 2003; Samson 2006). The data also showed that positive word-of-mouth effects strongly on company choosing behavior on the insurance side. The most common reason was still the power of parents, which was

even much stronger on the banking side, in which majority of the interviewees admitted of being the reason for their company choosing. In other words, they had not chosen them by themselves. As for price, it appears that customer become more sensitive to price as their expenses go up. In other words, their loyalty is measured in that time. Organizations should acknowledge this risk, and try to make it to their benefit, as customers tend to ask the first offer from their own company.

In general, bank customer seems to be more loyal within this study. The duration of the relationships with insurance firms is also depended on the factor price. When expenses go up, duration goes down in many cases. This study also gives evidence that customers who pick their companies purely on price, are also in study, the ones who are not loyal (Reichheld 1993). As for centralizing, it is very clear that satisfied customer trust the same company with all of their business in both, bank and insurance.

The next figure will present the behavioral elements that came through from customer loyalty in this study. These are factors, which will give a competitive edge for a company.



**FIGURE 7: Competitive advantage from customer loyalty**

## **8 CONCLUSIONS AND IMPLICATIONS OF THE STUDY**

The purpose of this research was to provide answers to the previously defined research questions based on both, literary and empirical studies. The main research question was defined as; where does a finance service organization derive its competitive advantage? To get the answer for this question, two sub-questions were designed. The literary review attempted to study and provide a strong background for the role of service quality and customer service in service organizations. Another subject was to study the importance of customer loyalty in competitive environment. After the literary review, the factors for competitive advantage in finance service industry, was studied with empirical research. This chapter will summarize the findings of this research.

### **8.1 Conclusions**

The findings in these study shows that customer relationships with banks and insurance companies are people business, where emotions count and they effect on customer behavior. Even thou lots of the services that finance companies have gone to Internet, the importance of human contact still remains, and ordinary core products and services are not enough to create truly loyal customers, even thou they can be averagely satisfied.

The empirical findings give evidence that human contact is still the key element for loyalty creation. On top of positive perceived quality in general, human contact, such as customer service and sales personnel, is the extraordinary element for creating loyal customers. As a customer receives good service from an employee of a company, the positive interaction deepens the relationship between the company and the customer.

Factors, such as personalization, excellent customer service and frequent communication makes customers more satisfied, until the level where they would recommend or have been recommending their companies to their friends. Other significant factors that came up in the empirical research, which effects on loyalty, are the effect of experience and comparing behavior. Single positive experience from

insurance policy effects positively on customers' loyalty and recommendation behavior, as the phenomenon is here was similar to complaint management (Johnston 2004). The new discover, comparing behavior, also effect on how a customer views his current company. They benchmark their current companies with the past experience, experience-based and inexperience-based.

Majority of good experiences are derived from employees. They handle the everyday situations with customers and represent that company image. Employees in customer service create the positive emotions, which make customers loyal, whether the employee is familiar (personalization) or unfamiliar.

The importance of customer's loyalty is well explained in the academic literary and this study agrees with them. As this study also pointed out, loyal customers won't defect as easily and will generate more revenue to a company (Bolton 1998; Zeithaml et al. 1996; Reichheld et al 2000). As companies lose fewer customers, they will also save expenses in acquiring more customers (Page et al. 1996; Peppard 2000). Customer's loyalty also impacts on his behavior. Satisfied customers tend to centralize their needs in a same company (Reichheld 2003), as did the result in this study point out. They also act as a very strong marketing channel, as they put positive word-of-mouth in motion (Reichheld 2003; Samson 2006; Keller & Fay 2012), which was the most effective advertising channel in this study, as well as in older studies (Reichheld & Sasser 1990).

The earlier studies combined with this study, suggests that competitive advantage within banks and insurance companies lies in customer loyalty, which is gained by adding more value to a relationship. Satisfied customers are not enough, for they will defect (Oliver 1999). Only very satisfied customers count as a competitive edge (Reichheld 2003). This study highlights the importance of customer's emotions and experience for making them very satisfied (Meyer & Schwager 2007; Frow & Payne). Companies must meet the customers' personal preferences, which seem to be the emotional side (Yu & Dean 2001). This study enforces the earlier studies that concentrate on customers' experiences as the key element for competitive advantage (Frow & Payne 2007; Mascarenhas et al. 2006).

The empirical results in this study, also highlights the importance of HRM. The intangible assets are indeed the key element for gaining competitive advantage through loyal customers. Majority of the cases that were very satisfied, were built around the experiences from employees. The human contact seems to be the field, where the emotional side of a customer is involved. This is the area, where a company gets “a face”, as customers reflect companies through their frontline employees (Reichheld 2003). The extraordinary service (Jones & Sasser 1995) and outstanding performance (Frow & Payne 2007) derives from the employee. Business inside insurance and banking industry is business between people, thus for creating competitive advantage on the field of customer satisfaction and retention, employees is the key players for it (Duncan & Elliott 2004).

## **8.2 Theoretical and empirical contribution**

The results from this study backed up various earlier studies. The bargaining power (Porter 2008; Peppard 2000) of customers is the competitive field that should be focused on. As a bank or an insurance company develops its services, the bargaining power can be made weaker (Peppard 2000).

This study also highlights the studies in human resource management and marketing (Youndt et al. 1996; Pringle & Kroll; Reichheld 2003). Human resource is the factor for competitive advantage, since employees are the ones, who deliver many of the services in people business. Many of the cases proved that customers defected their old companies, because the customer service employees or salesmen were “nicer” or more pleasant. As the earlier studies indicate, frontline employees really make the difference (Reichheld 2003). This study also supports the backgrounds of customer relationship management and customer value, as the approaches are customer-oriented (Payne & Frow 2005; Gebert et al. 2003; Nguyen & Mutum 2012). The empirical research then highlights the coherent customer value, the emotional value (Huber et al. 2001; Yu & Dean 2001; Caruana 2002).

The various factors for loyalty are also strengthened, as many same factors were discovered, such as satisfaction, trust, personalization, communication, switching cost. The factor of commitment did not come up strong in this study (Dimitriades

2006). But the main issue was agreed with the earlier researcher, satisfaction and loyalty has the strongest link. This study enriches the earlier studies by presenting also new element for customer loyalty and also empowering old elements. The positive experience from insurance policy surfaced strong as an indicator of loyalty, as well as the comparing behavior. The factor of personalization was the single most important factor for customer loyalty. Even thou there have been lost of studies, which present the importance of excellent customer service, and few, which gives value on personalization (Ball et al. 2006; Peppard 2000; Kish 2000), this study brings this factor into a more important role, and suggests that it should be done by involving customers' emotions, such as trust, and not focusing on customization by information technology achievements.

Thus, the competitive advantage of banks and insurance companies should be created on the dynamic strategic capabilities (Eisenhardt & Martin 2000) of customer emotions, such as personalization of services, which will lead to customer loyalty. The results of the empirical part suggest that dynamic approach is the correct way to gain competitive advantage, as customer loyalty is created from strategic capabilities (personalization etc.). RBV approach is not valid for competitive edge in this studied area; it only gives good guidance on the importance of recruiting the right kind of employees.

The issue of price was aligned with the earlier studies, as it's not a factor in which loyalty should be built on (Barney 1991; Peppard 2000; Porter 2008). This study showed that those customers, whose satisfaction derives from price, are not that willing to recommend their company and are not as loyal as those, whose satisfaction derives from positive experiences from employees. Price sensitive customers also perform price rally more often. Even thou price is not the element in which a relationship should be built on, this study indicates that when the expenses go up, the meaning and value of price becomes more important. This study indicated that customers with low expenses are more loyal than customers with high expenses.

As for customer behavior, this study confirmed the studies in the theory chapters. Loyal young customer tends to centralize its business to same company (Reichheld 2003) and the duration of their relationship is longer and they put positive word-of-

mouth onward and the positive word-of-mouth is the most significant sales element (Reichheld 2003; Page et al 1996; Zeithaml et al. 1996; Keller & Fay 2012).

The most common reasons for defecting were bad service encounters, core product failures and lack of trust (Keaveney 1995; Manrai & Manrai 2007; Clemes et al. 2010). Price also came thought in many occasions, but the empirical study pointed out that the lack of trust and uncertainty might have been the actual reasons for defecting.

### **8.3 Managerial implications**

Managers should give more value on customer satisfaction in every service level, and acknowledge that real loyalty is derived from human contact, whether is to from sales person or customer service. CRM strategies on key customers should consist factors element such as personalization and frequent communication. The role of frontline employees has to be recognized, as they present the firms face and they are responsible of turning the customer loyal, as well as making customer defect. Thus, customer value is the area of dynamic capabilities and the strategies should be built around HRM to gain the right kind of behavior out from employees. Strategic capabilities should give focus on the factors, such as of personalization, communication, customer experience etc.

Bad service encounters should be avoided to the very end. The results in this study suggest that young customers are easy to defect if there is a case of bad experience. The lack of complaint management issues shows that customers defect even without bothering to complain. This means that a company doesn't even get the chance to exercise its service recovery systems.

Managers in insurance companies should realize the importance of customers' first claim on his insurance policy. A good experience from such a situation works like excellent service recovery system in complaint management. Insurance companies should prioritize customers first insurance claim is the most important, because good experiences from that can carry for a long time as the customers trust and satisfaction rises. This study also indicates that competitive advantage strategies can be

constructed around health insurances for they offer customization advantages, and in many occasions, customers can be depended on that insurance because rival companies might not offer the same terms. Positive experiences from health insurance make customers loyal.

Companies can also take advantage on customers' negative experiences from other companies, as customers' expectations become lower. This study suggests that the origin of bad experiences should be written down on CRM systems so this advantage can be used.

Managers should also make strategies for customers' price behavior. The results indicate that when expenses go up, customers become more price-oriented. This means that a price rally is performed when a mortgage is taken, or when the insurance bill goes higher. Still the current company is normally the first place where the offers are asked. It is importance that this kind of behavior is understood so companies can prepare for it and make strategies around it.

#### **8.4 Limitations of the study**

The validity and reliability of this study was evaluated before. However, it is necessary to give some words of caution regarding the results of this study. Some limitations were already described in the validity and reliability chapter. To sum up the central limitations of this research, it can be said that the limitations are related to the approach of this study area, the amount of research data and the technical aspect of conducting the research.

By choosing a positivistic approach to service quality and competitive advantage, many other possible approaches have been ruled out from the scope of this study, as it is necessary for a research like this. Still, this decision had a clear effect on the chosen research materials, journal articles and other literary material, which works as pillars of this study. With a different set of references and with a different focus, the conclusions of this study could have been slightly different.



Secondly, it must be recognized that the sample size for the research was relatively small, when one is studying a wide phenomenon such as competitive advantage. This obviously had an effect on the generalizability of the empirical findings. However, this had been taken into account when designing the study and therefore the findings can be regarded as internally valid, because the goal of this study was not to provide exact numbers. Still, by increasing the amount of interviewees, out from the campus area, the results would be generally more valid, as there would not only be university students involved.

Finally, different technical aspects of carrying out this type of a research must be considered when discussing the limitations. This study is the first of its kind for the researcher and therefore many technical aspects were previously unfamiliar. This raises the possibility for minor technical mistakes related to the interviews. This also affects on the searched literature as more experienced researchers might have found more relevant journals. The lack of experience also might have had an effect on the interpretation of the empirical data.

### **8.5 Suggestions for further research**

In terms of further research, various different interesting groups of topics can be identified. Firstly, it would be interesting to study the same subjects with a different age limitation. If the age bracket would be 30-35 or 36 to 40 years, the results might be different, as the trends in this study suggests. It would also be very convenient for companies to understand, how the age of a customer affects on his needs in the field of banking and insurance.

Secondly, this study was only scoped for understanding customer behavior. As the results suggested, employees play a big role in customer satisfaction. The earlier theories suggest that employee's satisfaction affects on his willingness to serve. The corporate side was excluded from this study for the lack of resources. If the employees and their HRM were included, the results could point out that what kind of human resource management is motivating employees. Also other studies focusing in organizations and their employees would offer more insight.

Other important area for various studies would be the factor human contact. Is it universal that customers will rank personalization as the key element. Is it depended on the customers' age, education, finance or other factors? Is there a different type of customers, which can simply be categorized, that values different service factors?

Other new topic, which would give lots of insight of customer's behavior, would be to study the reasons why customers do not trust their insurance companies, as they trust their banks in the beginning of a relationship.

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## APPENDIX

### APPENDIX 1 – The theme topics for interviews

#### Semi-structured interview

- Recording device: Samsung Galaxy
- Number of interviews: 50
- Qualification standards: age 25-30 years, living area Oulu

**Introduction for interviewees:** This research explores the relationships between a customer, which is you, and your relationship with your bank and insurance company. This research is anonymous and your name will not be needed. I will ask you few questions. At times I will dig deeper with sub-questions for gaining a better understanding of the phenomenon. The idea is that you can be truthful with your answers, and you should answer how you actually feel about the subject. There is also no time limit, so you can think through before answering.

The topic:

1. Would you recommend your insurance company or bank to your close friend? YES/NO. Is it the same company? Have you centralized your services?
2. What are the reasons for your earlier answer for the recommendation? Explain, why you would / wouldn't recommend your companies if your friend could get the same service level?

Sub-question topics:

1. How long have you been a customer in your bank and insurance company?
2. Do you race the prices often?
3. Have you made any complaints what so ever?
4. Do you trust your companies?
5. Why did you choose the companies in the first place?
6. Have you actually ever recommended your bank or insurance company to some of your friend, or given negative word-of-mouth?